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AMERICA'S ECONOMIC CHALLENGE IN ASIA: GUAM'S STRATEGIC BUSINESS ROLE

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

AND THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

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AMERICA'S ECONOMIC CHALLENGE IN ASIA: GUAM'S STRATEGIC BUSINESS ROLE

TUESDAY, SEPTEMBER 10, 1985

CONGRESS OF THE UNITED STATES, SUBCOMMITTEE ON MONETARY AND FISCAL POLICY AND THE SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH OF THE JOINT ECONOMIC COMMITTEE,

Washington, DC.

The Subcommittee on Monetary and Fiscal Policy met, pursuant to notice, at 10 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senators Symms, D'Amato, and Mattingly.

Also present: Joe Cobb, professional staff member.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator SYMMS. The Subcommittee on Monetary and Fiscal Policy will now come to order.

We will discuss this morning America's economic challenge in Asia and Guam's strategic business role.

Now, I would like to open this hearing on this strategic business role of the territory of Guam by welcoming my colleagues. We have got two of my colleagues here in the Senate with us here this morning. We are delighted that they are here, Senator D'Amato and Senator Mattingly, and then honored guests from Guam's government and business community and the Federal officials whose agencies deal directly with the territory.

Of course, our first witness will be Delegate Ben Blaz, and we will talk about that a little bit more in a minute.

But I am also a member of the Senate Finance Committee, which currently is hearing President Reagan's tax proposal. I will be relying very heavily on testimony given here today to guide me and the tax committees on the effects of the tax proposals on the territories.

In my work with the Senate Finance Committee I have become very interested in the issue of tax autonomy for Guam because I have seen the effects of unwise tax policies and how they can stifle and block economic development, and I am a strong advocate of policies that aim at stimulating economic enterprise and growth.

The Joint Economic Committee is holding this hearing in response to the concern and request of Delegate Ben Blaz, who represents Guam. He brought to my attention some of the issues involved in the territory's economic development and how Federal

policies and pending tax, trade, and other legislation can affect the territory.

The Joint Economic Committee is an investigative, rather than a legislative body. The committee is a congressional forum where new ideas are examined and brought forward. It has served as a launching pad for many major national themes such as tax simplification, privatization, and enterprise zones. President Reagan's first-term tax cuts were one of the new ideas launched by this committee.

The major focus of this hearing will be Guam's role, actual, and potential, in America's ever-expanding trade with the Asia-Pacific region. That trade has grown phenomenally in the last 10 years and now exceeds our total trade with our traditional European allies. The Heritage Foundation and Reason Magazine have published lengthy reports that demonstrate how the territory of Guam, if given Federal support and freedom from overregulation, could develop into a second Hong Kong in this vital trade arena.

There will be two sessions to this hearing. The morning's session, which I will chair, will be conducted by the Subcommittee on Monetary and Fiscal Policy. The afternoon's session will be held by the Subcommittee on Trade, Productivity, and Economic Growth. Representative Daniel Lungren will chair that hearing.

This morning's session will begin with testimony on President Reagan's tax reform proposal and its effect on the territory of Guam. The proposal contains important provisions that would grant the territory the autonomy to delink from the mirror tax system based on the IRS Code and set up a tax system appropriate to Guam's needs.

The second major topic this morning will deal with the roles of Federal and local government in the territory's development and will include a discussion of a subject dear to my heart, the opportunity for transferring government service to private contractors. I also am looking forward to your testimony on the impact of immigration laws on the territory because I have a deep interest in proposed changes to U.S. immigration laws.

Before we begin the testimony, I would like to mention that my friendship and association with Delegate Ben Blaz goes back several years and my respect for him has increased over those years. As a matter of fact, I had the pleasure a few years ago of publishing in the Congressional Record a speech Brig. Gen. Ben Blaz made at the Marine Corps' basic school at the end of his distinguished career in the Marine. Corps.

And now I would like to ask Delegate Blaz if he would come forward for his opening remarks

And I think just as a matter of interest that Delegate Ben Blaz was the first Guamanian to be a commissioned officer in the U.S. Marine Corps in the Armed Forces of the United States. He was on Guam during the Japanese occupation, so he understands the strategic significance that Guam means to the security of the United States.

And I think as a point of personal pride, for not only him but for myself and all the other former marines, that General Blaz was liberated on Guam by the fighting 9th Marines of the 3d Marine Division in 1944, and later on he had the privilege and the high honor

to command the 9th Marines when he was a full colonel on active duty in the U.S. Marine Corps, which I think speaks very well. He also served in the 9th Marines in both the Korean and Vietnamese wars.

So General—Delegate—we really welcome you to your great shining spot in the Congress of the United States, and we are delighted to have you here, and we are very pleased and proud of the job you do representing what I think is a very strategic island in the Pacific for the future security and trading commercial interests of the United States.

So please make yourself at home here at the witness table, and then if you would like to join us at the dais after you have made your statement, I would like to make that invitation to you.

Delegate BLAZ. Thank you very much, Mr. Chairman.

Senator SYMMS. Excuse me. Did either one of the two Senators have an opening statement?

Senator D'AMATO. Mr. Chairman, I think it is more important that we hear our distinguished colleague, Delegate Blaz. So I would like to submit my opening statement for the record in its entirety.

Senator SYMMS. Without objection, so ordered.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF SENATOR D'AMATO

PREPARED STATEMENT OF SENATOR D'AMATO

GOOD MORNING, MR. CHAIRMAN. TODAY'S TOPIC OF DISCUSSION, GUAM'S STRATEGIC BUSINESS ROLE, IS AN IMPORTANT AREA OF CONCERN. GUAM IS THIS COUNTRY'S WESTERNMOST TERRITORY AND HAS BEEN A TERRITORY SINCE 1898. (TRIVIA NOTE: IT IS NOW THE WESTERNMOST, BUT HAS NOT ALWAYS BEEN SO.)

GUAM IS THIS COUNTRY'S GATEWAY TO ASIA. WITH TWO-WAY TRADE IN THE ASIA-PACIFIC AREA OVER $165 BILLION LAST YEAR AND GROWING, GUAM WILL ASSUME AN EVER-INCREASING ROLE IN THE BUSINESS OF THE PACIFIC. THE $165 BILLION TRADED LAST YEAR EXCEEDS OUR TOTAL TRADE WITH OUR TRADITIONAL EUROPEAN ALLIES.

MANY ECONOMISTS PREDICT THAT, BY THE END OF THIS CENTURY, THE ASIA-PACIFIC REGION WILL SURPASS THE UNITED STATES AND EUROPE AS THE WORLD'S STRONGEST ECONOMIC ENTITY. THE ECONOMIC DYNAMISM OF THIS REGION GIVES IT THE WORLD'S GREATEST POTENTIAL FOR THE FORSEEABLE FUTURE.

FOR YEARS GUAM HAS PLAYED ITS PART IN PROTECTING AND ADVANCING THIS NATION'S INTEREST IN THE REGION MILITARILY. WITH GUAM'S NAVAL BASE, STRATEGIC AIR COMMAND BASE, NAVAL AIR STATION, AND NAVAL COMMUNICATIONS STATION WE HAVE HAD A SECURE MILITARY FOOTHOLD IN THE REGION.

THE NEW ROLE GUAM MUST UNDERTAKE IN THE REGION, HOWEVER, IS VASTLY DIFFERENT. GUAM IS INVOLVED IN THE MOST ACTIVE TRADE REGION IN THE WORLD AND IT MUST ASSUME A LARGER PART IN THIS ACTIVITY. THE COUNTRIES OF THIS REGION HAVE BECOME EXTREMELY EXPORT-ORIENTED. THEIR UNDEVELOPED FARM-BASED SOCIETIES HAVE BEEN CONVERTED TO INDUSTRIAL-BASED MANUFACTURING. TRADE IS THE BUSINESS OF THE FUTURE. GUAM MUST TAKE PART IN THIS TRADE.

MANY AMERICANS ARE UNAWARE OF THE DEVELOPMENT OF THIS REGION. I BELIEVE IT IS THROUGH PUBLIC HEARINGS SUCH AS THIS THAT THESE DEVELOPMENTS CAN BE MADE MORE WIDELY KNOWN.

THANK YOU, MR. CHAIRMAN.

Senator MATTINGLY. I have no statement, Mr. Chairman. I welcome Delegate Blaz, and I will have some questions for the record later.

Senator SYMMS. Mr. Blaz, welcome to the subcommittee.

STATEMENT OF HON. BEN BLAZ, A U.S. DELEGATE IN CONGRESS FROM THE TERRITORY OF GUAM

Delegate BLAZ. Thank you very much.

I must admit I was a little bit overwhelmed by your remarks. I am a bit nervous here, and I hadn't heard the Marines mentioned in so long that it reminded me of what a good time I had, and you did, too, as I recall.

Thank you very much, Senator Symms. I also want to thank Representative Lungren, who has agreed to cochair the subcommittee hearings this morning and this afternoon.

This would not have been possible without your help and encouragement.

I would also like to warmly welcome Guam Government and business leaders who have shown a real commitment to the cause of enhancing Federal-territorial relations by coming 9,000 miles at their own expense to testify at these hearings.

It is very important for the future of our territory that Congress hears and examines the views of Guam's leaders on how the territory can play a larger role in the international trade and development that America is such a vital part of in our area of the world.

As the closest American territory to the dynamic Asian trade arena, the territory of Guam is within a few flying hours of major business capitals of the region, including Tokyo, Manila, Hong Kong, and Singapore.

Guam's proximity to these vital trade centers has long made our territory strategic from a military standpoint. What we need to highlight is the territory's potential from an economic standpoint: How Guam can serve America as a strategic business center.

I have introduced several bills that will grant the regulatory reform necessary for Guam to develop its potential. The specifics of the territory's needs and how they can be addressed by legislation will be brought out in these hearings.

Congressional leadership is vital to this effort. A recent Government Accounting Office report expressed clearly the overriding concern of territorial leaders. The report concluded that the Federal Government lacks a coordinated and consistent policy for the territories. Without this, the approach and direction has been ad hoc, creating conflicting plans and policies and counterproductive relations.

This is a truly significant hearing because it is the first time this prestigious committee has addressed Guam's unique problems, needs, and aspirations. The hearings provide us an unusual opportunity to enter into the public record in one document the views of the leadership of Guam with respect to our economic dilemma, and how we could overcome it.

The committee's findings can help the Congress formulate creative responses and approaches that would allow the territory to

achieve the development and self-reliance it seeks in its quest toward economic self-sufficiency.

That concludes my statement, Mr. Chairman.

Senator SYMMS. Senator Mattingly.

Senator MATTINGLY. I have no statement at this time.

Senator SYMMS. Do you have any questions, Senator D'Amato?

Senator D'AMATO. No, Mr. Chairman. Congressman, I am interested in hearing some of the specifics that your colleagues will bring to us with respect to what we can do to improve that business climate, as you suggest.

Delegate BLAZ. Thank you.

Senator SYMMS. Congressman, why don't you join us up here at the dais, and then you may have some questions, also. We would love to have you participate in the hearing.

Thank you very much for an excellent statement. We have a panel of Mr. Steve Shay, Deputy International Tax Counsel, Department of the Treasury.

Mr. Shay, we will be glad to hear from you now. Is there a prepared statement?

STATEMENT OF STEVE SHAY, DEPUTY INTERNATIONAL TAX COUNSEL, DEPARTMENT OF THE TREASURY

Mr. SHAY. No, sir. I was informed of my testimony last evening, and what I propose, Mr. Chairman, members of the committee, Delegate Blaz, is to give a short discussion of the current income tax laws that are in force in Guam and then describe how the President's proposals would modify those laws, if that is acceptable to the committee.

Senator SYMMS. That will be acceptable.

Senator D'AMATO. Will the chairman yield?

Senator SYMMS. Certainly.

Senator D'AMATO. Would you also be prepared or are you in a position to discuss Delegate Blaz' legislative proposals? Are you aware of them?

Mr. SHAY. I would not be able to comment on them usefully today, Senator.

Senator D'AMATO. I think that would be most important at some point in time.

Mr. SHAY. If I may ask the Congressman, do those proposals deal specifically with the tax proposal?

Delegate BLAZ. No. The ones I have do not specifically deal with the tax proposal. They deal with headnote 3A and other matters.

Senator D'AMATO. So your proposals are not tax-related?

Mr. SHAY. Of course, I am sure the colleagues in the administration will be happy to respond to questions relating to that legislative proposal, and I am confident and hopeful that they are aware of it.

Mr. Chairman, just by of background for considering the President's tax proposals as they pertain to Guam and other territories of the United States, under current law the income tax laws of the United States; that is, the Internal Revenue Code, applies as the tax law of the territory; that is, of Guam. It is applied through the use of what is known as a word substitution system, whereby the

word "Guam" is substituted for the words "United States," so that the Internal Revenue Code in its fully glory and complexity applies as the Tax Code of that jurisdiction.

Certain coordinating rules are needed in order to make the code work in a sensible manner. A special code provision, section 935, provides that an individual resident of the United States or Guam is required to file with respect to his tax liability in those jurisdictions with the jurisdiction in which he is resident at the end of his taxable year.

That just simply tells us where people who are residents, particularly in jurisdictions other than their original home, should file their tax returns.

If, for instance, a U.S. person is resident in Guam at the end of his taxable year, he files a tax return in Guam, and amounts which have been withheld, say, in the United States are then covered over to the Treasury in Guam.

In the case of corporations, a corporation that would be chartered in Guam would pay U.S. tax with respect to U.S. source income. A U.S. corporation that is doing business in Guam would be subject to Guam tax on its Guam's source income, and a special provision under current law, section 936, applies if the corporation is conducting more than a threshold level activity in Guam. Under that provision there is a credit given in the United States so that basically it can be exempt from U.S. tax if it is conducting that level activity in Guam.

The President's proposal, as has been suggested in Delegate Blaz' statement, proposes to delink this mirror code system. Under our proposal—under the President's proposal—Guam would be granted full authority over its own income tax system, subject to certain qualifications which are designed to ensure that the two tax systems will mesh correctly and that neither tax system would be subject to abuse by residents taking advantage of——

Senator SYMMS. Mr. Shay, how would you plan to enforce and coordinate the enforcement of those if Guam is delinked and there are two separate tax codes? What would Treasury and the Government of Guam's plan be?

Mr. SHAY. The basic relationship would be that Guam would enforce its own tax code as it applied to income derived from Guam. Where a Guamanian citizen or resident derives income from the United States or from foreign sources, then they would file a tax return with the United States and the United States would perform the administrative function with respect to that kind of income.

The theory there, Mr. Chairman, is simply that the resources of the United States are greater for administering the tax on income that may be earned around the world. Although it is not specifically referenced in the President's proposal, because of the close economic relationship between Guam and the Commonwealth of Northern Mariana Islands, we recognize that we would have to come up with some special rules to take cognizance of that relationship and want to ensure that the two jurisdictions can appropriately divide revenues.

I would assume we would leave that to them for the most part, but I tend to think we would not have the United States adminis-

tering that portion of the income that is foreign to Guam. That is something we would have to consider.

In general, however, Guam would have responsibility for administering its own income tax code with respect to income that is derived from Guam.

Senator SYMMS. Why does the administration support the option of providing Guam this opportunity to develop its own tax code?

Mr. SHAY. Mr. Chairman, for several reasons. I think first and foremost it was alluded to in your remarks.

The Internal Revenue Code is a highly complex document, and it is designed for the economy as that exists in the mainland United States. Guam's economy has some considerably different features, and of course Guam has a special relationship with the United States.

In cognizance of that, we felt that it was more realistic economically and probably better for the mutual interests of Guam and the United States to allow Guam to attempt to fashion its own income tax code which would be suited to its own needs.

We have some caveats, sir, and I think they are mutually agreed upon by Guam and the United States. The caveats are simply that we will be building in protections that would prevent either Guam from being used as a tax haven vis-a-vis investment in the United States.

Under our proposal, if Guam chooses to reduce revenues to attract investment in Guam, that would be perfectly acceptable and obviously is one of the choices that is available to them. But it is not intended that the proposal allow non-U.S. persons to obtain benefits for investment in the United States which would not be available to other U.S. taxpayers.

The second reason for taking this approach is that we have had a history of difficulty—which has been, I think, regrettable on both sides—that derives from the very complex interaction of applying the Internal Revenue Code to transactions that involve Guam, and I think that this proposal will help simplify that relationship and avoid unintended conflicts that have occurred in the past.

Senator SYMMS. Would Guam be subject to both the Federal tax, then, and their own tax?

Mr. SHAY. A Guam resident who did not derive income from the United States or from foreign sources—that derived income from within Guam, your every day wage earner performing services in Guam would only pay tax to Guam. He would not pay tax to the United States.

Senator SYMMS. OK.

Senator D'Amato.

Senator D'AMATO. I have no questions.

Senator SYMMS. Delegate Blaz.

Delegate BLAZ. One question here, Mr. Shay.

What specific opportunities for new investment in Guam could you see being created by Guam's development of its own tax code?

Mr. SHAY. As I understand your question, it is: What is the opportunity for Guam itself to attempt to attract investment?

The opportunity really is for Guam to determine what its particular circumstances are that could benefit from an investment incentive. It is precisely because we here in Washington are not

expert on what is best for Guam that I have to say I am not competent to answer your question.

That is, Guam as a taxing jurisdiction will have to determine for itself if it is going to sacrifice tax revenue in order to attract investment, whether that tradeoff is going to be worthwhile.

All we are doing in this proposal is making that legally possible.

I have to refrain, to be honest, from attempting to give advice on that because it would be uninformed advice. I know your Governor and Chamber of Commerce have been looking at ideas. It will have to be your Government which would make that evaluation.

Senator SYMMS. Thank you very much. I appreciate your testimony.

I guess what you are really saying is that if Guam would set up a progrowth business environment that then you don't have to have the answer or the plan. It will grow from its own enterprising activities and has the potential to make a strong commercial bastion in the Pacific, then?

Mr. SHAY. That is correct.

Senator SYMMS. If we can allow it to do that?

Mr. SHAY. That is correct, Mr. Chairman. Of course, my remarks have been limited to the Tax Code, and of course, the Government of Guam, as I understand it, is examining a wide range of options.

It is always a question that is difficult to answer, whether you want to sacrifice revenue as your source to attract investment or make other kinds of regulatory changes.

But on the tax side, we simply are saying we are leaving that decision for the Government of Guam.

Senator SYMMS. Thank you very much. I appreciate your testimony this morning.

Mr. SHAY. Thank you, Mr. Chairman.

Senator SYMMS. The next witness is the Honorable Edward Reyes.

Thank you, Senator D'Amato, for your interest here, and Senator Mattingly.

The Lieutenant Governor of Guam.

Mr. Lieutenant Governor, welcome to our subcommittee and to our capital city.

STATEMENT OF HON. EDWARD D. REYES, LIEUTENANT GOVERNOR, TERRITORY OF GUAM, ON BEHALF OF HON. RICARDO J. BORDALLO, GOVERNOR

Mr. REYES. Thank you, Mr. Chairman.

As you indicated, my name is Edward Reyes. I am the Lieutenant Governor of the territory of Guam, and I am here on behalf of the Governor and the people of Guam, and I thank you for the opportunity to present our views concerning the reform of the "mirror" system of taxation as it applies to our territory.

Since 1950, Guam has administered and enforced the income tax laws of the United States as mandated by section 31 of the Territory's Organic Act. This section was enacted by the Congress primarily to relieve the Federal Government of making direct appropriation to the government of Guam. Although Congress delegated the administration and enforcement function of the Federal income

tax system to the government of Guam, the territory is powerless to vary the terms of the Internal Revenue Code as applied to Guam, except as permitted by the Congress.

The difficulties with this mirror tax system have been documented many times. One of the best discussions is found in an article by Karla Hoff, entitled "U.S. Federal Tax Policy Towards the Territories: Past, Present and Future," which appeared in the Tax Law Review, volume 37, No. 1, for 1981.

Rather than restate the material in that article, I would point out the single most burdensome aspect of the mirror image to Guam is revenue instability. The Congress is continually changing U.S. tax laws. In the last 10 years, major changes occurred in 1976, 1978, 1981, 1982, and 1984, and a further revision is now under consideration.

Congressional action dramatically affects Guam's revenue. This makes it virtually impossible to do any long-term financial planning. Even when proposals are said to be "revenue neutral," they are not neutral for Guam. Our per capita income is less than that of any State for Guam. Reforms which reduce the burden on low-income taxpayers but provide "compensating revenues" from middle and upper taxpayers erode our tax base, since we have a larger proportion of low-income taxpayers than on the U.S. mainland. In fact, 95 percent of Guam's taxpayers have annual adjusted gross incomes of under $40,000.

Also, the complexities of the mirror image system make tax administration on Guam most difficult. Our island contains roughly 110,000 people. Apart from the Commonwealth of the Northern Marianas, we are thousands of miles from the nearest U.S. tax jurisdiction. It is simply not possible to support a staff with the experience and knowledge of the more specialized portions of the U.S. Tax Code with such a population base. As a result, we must concentrate on general issues.

I should also note that the President's delinkage proposal is entirely consistent with the language contained in Guam's draft Commonwealth Act, which shall be presented to this Congress later on.

For all these reasons, we strongly support the President's proposal to eliminate the "mirror image system" and to restore to Guam its rightful power to levy its own taxes.

Since the development of a local tax code will take time, we propose to continue the application and enforcement of the Internal Revenue Code on Guam in its present form.

Proposed reductions in tax rates and increases in amounts for personal exemptions as outlined in other chapters of the President's proposal is estimated to reduce Guam's revenue base by over $23 million if adopted in 1986. It is, therefore, important that Congress permit Guam to delink from the Internal Revenue Code and adopt the prereform code as an interim tax code to maintain revenue neutrality.

In anticipation of favorable congressional action on this issue of delinkage, we have established a Tax Review Committee representing a good cross-section of the community. Government officials, business leaders, legal and accounting professionals, and other interested individuals form the core of this committee, with our Director of Revenue and Taxation as chairman. The committee has

been meeting regularly formulating transitional plans and recommendations for the territory's interim and future tax system.

We are confident that the tax code eventually presented to the people of Guam will be fair and consistent with the territory's economic goals and objectives. We ask that you favorably consider this important provision of the President's proposal so that Guam can more efficiently and effectively develop itself into an economically self-sufficient territory.

Again, Mr. Chairman, members of the committee, thank you very much for allowing me to appear before you this morning. Thank you.

Senator SYMMS. Thank you very much, Mr. Lieutenant Governor, for a very excellent statement that you presented and an excellent job on behalf of the Governor in presenting it.

We welcome that statement, and you say you strongly support the President's proposal to eliminate the mirror image system, and I guess that brings me to a question. You don't have to have a specific answer for this because I know how tax laws are developed, being on the Finance Committee here in the Senate, that it takes a lot of give and take and a lot of work to come to some kind of a conclusion, and sometimes what starts in at one end comes out slightly different on the other end.

But in a general philosophical concept, do you think that Guam would desire to develop a tax code that was similar to our Tax Code, or would it develop a tax code that would be more to resemble the Asian countries which are in that proximity, which would be necessary for you to compete with?

Mr. REYES. Let me clarify. You mentioned earlier, Mr. Chairman, the elimination of the IRS Tax Code. That is really not necessarily the substance of our objective.

Our objective, of course, is to delink—as I indicated in my statement—to delink from the IRS Code yet still retain the code in its transitory form, so that we will retain the code—the prereform code—and as we progress, perhaps 3 or 4 years down the road a ways, we would develop our own.

But in the meantime, we will still use the current code, and obviously we would want to tailor our tax policies to the specific requirements of the territory. We would gear our policies to enhance our economic base and facilitate financial planning.

As far as tailoring it to the other countries in Asia, we really are not looking at that right now. Perhaps there may be some elements there which we could look at for possible implementation later.

However, I suspect that many of the provisions of the current Tax Code will be retained by Guam.

Senator SYMMS. Well, part of the question I am trying to ask, if you delink from the current Tax Code, from the mirror tax system currently in force, and you adopt your own tax code, currently even the Internal Revenue Code, would this local tax be applied to Guam taxpayers in addition to Federal and personal taxes? What do you envision in that?

Mr. REYES. Of course, the people who are deriving income from Guam would be subject to local tax in much the same manner as you have it in each State in the Union. As far as the Federal folks are concerned, there we are hopeful that the current provisions of

the IRS Code would be retained where the tax on those people—the military and Federal—will continue to revert back to the government of Guam.

Senator SYMMS. Thank you very much. Delegate Blaz.

Delegate BLAZ. I don't have any questions.

Senator SYMMS. No questions.

Thank you very much, Mr. Lieutenant Governor.

Mr. REYES. Thank you, Mr. Chairman.

Senator SYMMS. You have come a long ways, and we are glad to have you all here.

Mr. REYES. Thank you.

Senator SYMMS. Panel III. Ms. Eloise Baza, president of the Guam Chamber of Commerce; Mr. Simon A. Sanchez II, president of Simon A. Sanchez II & Associates, and Mr. Jesus Leon Guerrero, president of the Bank of Guam.

Ms. Baza, you please start. I am going to excuse myself for just a moment. I have a call I have to make. We can go right on with the hearing, and I will review your statements and Delegate Blaz will hear the hearing here for a second.

So please go right ahead.

STATEMENT OF ELOISE R. BAZA, PRESIDENT, GUAM CHAMBER OF COMMERCE

Ms. BAZA. Mr. Chairman, Delegate Blaz, members of the Joint Economic Committee.

On behalf of the Guam Chamber of Commerce, I would like to thank you for the historic opportunity to appear before you today to discuss how Guam can become a contributing member of the American community.

It certainly is most appropriate that Federal tax reform for Guam is the first item on today's agenda. The U.S. trade has significantly shifted from Europe to the Asian Pacific area in the past 4 years.

This region has become and will continue to be a lucrative trading area for United States import-export business for decades to come. Guam is ideally situated to assume a major role in American trade. We have the potential to be a staging point for American companies doing business with our allies in the Pacific rim.

Further, being part of America, we possess the political stability American firms are looking for—something our neighboring Asian nations like Hong Kong, South Korea, and Taiwan are unable to offer.

Guam's existing income tax system, however, which is identical to the United States Internal Revenue Code, by virtue of the Organic Act of 1950, prevents us from even competing with the tax incentives offered by Asian capitals like Hong Kong and Singapore. The mirror image application of the Internal Revenue Code has certainly proven to be inappropriate to Guam's economic situation.

Guam's business community is here today to ask for your support and your enactment of those provisions of chapter 1505 of President Reagan's proposal for comprehensive tax reform which allow Guam to delink from the Internal Revenue Code and develop an income tax system which would provide for the attraction of

American business investment, in particular, to Guam, and ensure revenue neutrality. We also recognize the time involved in developing an income tax system for Guam and the need to maintain communication with Congress.

In light of these considerations, we are also seeking your favorable action on one additional item: that Guam be allowed to adopt the 1954 Internal Revenue Code as it exists today as our interim code during a period in which a joint commission would be formed and serve as a mechanism for Congress and Guam to define and propose what Guam's new tax relationship will be.

The products of an appropriate income tax system for Guam include:

First, it would provide stability to the Government of Guam's revenue base;

Second, it would attract investment to Guam, thereby enabling us to expand our economic base;

Third, it will provide employment opportunities for Americans in Guam; and

Fourth, it would be beneficial to the Federal Government, because the expansion of Guam's economic base would curtail the need for Federal subsidy for Guam; and in this way, Guam can do its share in assisting or addressing the problem of the Federal deficit.

I, along with Mr. Sanchez and Mr. Guerrero, will be happy to respond to any questions you may have.

[The prepared statement of Ms. Baza, together with an attachment, follows:]

Prepared Statement of Eloise R. Baza

Mr. Chairman and Members of this Committee, I am Eloise R. Baza, President of the Guam Chamber of Commerce. I welcome this opportunity to present our views on the issue of tax reform, in particular, President Reagan's proposal, as it relates to Guam. Of foremost importance to us is that President Reagan's proposal formally recognizes local problems associated with the current mirror code system - a first in the history of the federal government. So that these problems may be resolved in such a manner that will promote fiscal autonomy for Guam and other U.S. possessions, the proposal offers us the opportunity to delink from the Internal Revenue Code and develop a tax system conducive to our economic characteristics and needs.

The Guam Chamber of Commerce has long favored a Guam income tax system which specifically responds to our economic development goals and one which attracts the business investments that will enable us to achieve such goals.

Guam has the potential to be the staging point for American business in the Asia/Pacific Region. The mirror image application of the Internal Revenue Code, however, prevents us from even competing with the tax incentives offered by neighboring Asian capitals such as HongKong and Singapore. The Heritage Foundation noted in its April 1983 study, "How Guam can become America's HongKong," that "investors on Guam are currently subject to every tax ruling issued by the Treasury Department and as a result, Guam's tax system is keeping investors at a distance."

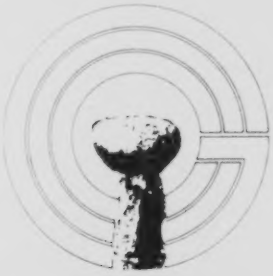
The Organic Act of 1950 mandated that Guam's tax system be identical to the United States Internal Revenue Code (IRC) using basically the same rates, exemptions, credits and deductions. The Government of Guam was given the authority for the collection of taxes and the administration of tax codes in the so-called mirror system. All IRC laws in effect at that time would apply to individual and corporate taxpayers, as would all future tax regulations and amendments without regard to their impact on Guam.

The mirror image system is consistently burdensome with respect to the Government of Guam's revenue requirements and promotes revenue instability. Amendments to the IRC affects Guam quite differently from the way the fifty States are affected in that Guam has a larger proportion of low-income taxpayers than in the mainland. Approximately 95% of Guam's taxpayers fall on or below the $40,000 per annum income tax bracket. Per capita income is only $4,800 per year, $2,500 below the national average. Median household income is $1,000 below the national average. 13% of Guam families live below the poverty level, 4% more than the average nationwide.

Reforms aimed at benefiting low-income wage earners clearly result in the erosion of our government's revenue base. The President's proposed rate amendments will not be revenue neutral for Guam -- it will mean at least an $18 million revenue loss to the Guam government which our present tax base can ill-afford. Our support for President Reagan's proposal, therefore, is confined to only those provisions which would enable Guam to delink from our present tax relationship with the Internal Revenue Code and develop our own tax system, thus removing major problems we face with the mirror tax code. Chapter 15.05 of President Reagan's Proposal for Comprehensive Tax Reform provides us with this opportunity. We seek your enactment of this provision and request your consideration that Guam adopt the 1954 Internal Revenue Code as it exists today (Pre-Reagan II IRC) as our interim tax code for a period during which a Joint Commission would be formed and serve as the mechanism for Congress and Guam to define what Guam's new tax relationship with the United States will be.

I cannot overemphasize the significance which an independent Guam income tax system will bear upon Guam's economic position in the Asia/Pacific region. Guamanian Americans will be able to be contributing members of the American community, through a flourishing and dynamic private sector which can be the product of Federal tax reform for Guam.

GUAM CHAMBER OF COMMERCE
PARTNERS IN PROGRESS



Statement of the Guam Chamber of Commerce

ON: "AMERICA'S ECONOMIC CHALLENGE IN ASIA:
GUAM'S STRATEGIC BUSINESS ROLE"

TO: JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

DATE: SEPTEMBER 10, 1985

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TERRITORY OF GUAM
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U.S.A.

RICARDO J. BORDALLO
Governor

SEP 04 1985

The Honorable Steven D. Symms
United States Senate
Chairman
Subcommittee on Monetary and Fiscal Policy
Joint Economic Committee
Washington, D.C. 20510

The Honorable Daniel E. Lungren
House of Representatives
Vice-Chairman
Subcommittee on Trade, Productivity,
and Economic Growth
Joint Economic Committee
Washington, D.C. 20515

Dear Senator Symms and Representative Lungren:

With respect to the upcoming Joint Economic Committee hearing scheduled for September 10, 1985 in Washington, I would like to take this opportunity to laud the efforts of the Guam Chamber of Commerce in taking the initiative to provide the business community's perspectives and concerns over various federal barriers which impede our island's economic growth. I am confident that their input would prove invaluable in the final analysis of the problems confronting our small island. Their firm commitment to improve the quality of life on our island is indeed commendable.

As Governor of Guam, I find it heartwarming to see a delegation such as the Chamber's travel to Washington at their own expense to voice serious concerns affecting our island community in general. Although it is my duty as an elected official to protect the best interests of my constituents as a whole, the topics to be discussed are concerns which are shared by both the public and private sectors, alike. In this spirit of cooperation, I implore you to take all views into serious consideration in arriving at the most realistic solutions to our problems, of mutual benefit to all concerned parties.

On behalf of the people of Guam, I look forward to having a successful meeting with you.

Sincerely yours,

RICARDO J. BORDALLO

OFFICE OF THE SPEAKER
Eighteenth Guam Legislature
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U.S.A. 96910

CARL T.C. GUTIERREZ
Speaker

September 3, 1985

The Honorable Steven D. Symms
United States Senate
Chairman
Subcommittee on Monetary and Fiscal Policy
Joint Economic Committee
Washington, D.C. 20515

The Honorable Daniel E. Lungren
House of Representatives
Vice-Chairman
Subcommittee on Trade, Productivity,
and Economic Growth
Joint Economic Committee
Washington, D.C. 20515

Dear Senator Symms and Representative Lungren:

As Speaker of the Eighteenth Guam Legislature, I would like to express sincere optimism on behalf of my colleagues in the outcome of the upcoming Joint Economic Committee hearing scheduled for September 10, 1985 in Washington. The basis of my sentiment lies in the fact that you will be hearing testimonies from both the business community and government. I have strongly believed in balancing business and community responsibilities in the exercise of my duties. To this end, I am confident that your Committee would take all perspectives into consideration in arriving at the most equitable solutions to serious dilemmas facing our island today.

As you may be aware, my firm commitment for private sector expansion cannot be overstated. My record in office will attest to this. I have worked closely with the Guam Chamber of Commerce in removing local laws impeding our island's economic growth and introducing legislation which would foster economic development. I would like to extend kudos to the Guam Chamber of Commerce for their indefatigable efforts to promote a positive business climate for Guam. Their presence at the hearing would further emphasize our shared commitment to create a better Guam for everyone.

Wishing you a successful hearing, I remain

Sincerely yours,

CARL T.C. GUTIERREZ

CTCG/kp

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I. EXECUTIVE SUMMARY

"AMERICA'S ECONOMIC CHALLENGE
IN ASIA / GUAM'S STRATEGIC BUSINESS ROLE"
before the
JOINT ECONOMIC COMMITTEE

The Guam Business Community welcomes the opportunity to present testimony reflecting the private sector's views on various federal policies and regulations affecting our island's economic development.

Guam is poised and ready to take full advantage of the "golden stream" that trade and investment occurring in the region is producing. East Asia and the Western Pacific already have more trade with the United States than do Latin America or Western Europe. That trade is forecasted to grow over the next two decades as will American investment in the region.

Guam could be the staging point for American business and economic activities in the Asia / Pacific region. Its strategic location can serve economic as well as strategic military interests. If the Federal laws, regulations and policies that inhibit economic development can be lifted, Guam will prosper and be a contributing member of the American community.

Guam's business community does not believe that handouts are the way to prosperity. We believe that free enterprise can provide for the Territory's material and social well-being and supply the needed employment opportunities. Guam's business people believe that the "helping hand" rather than the handout should be the Federal government's approach to Guam.

Economic development and growth are products of a flourishing and dynamic private sector. Recent cutbacks in Federal spending underscore the need to shift reliance from government to the private sector. Expanding Guam's economic base entails a mutual cooperative effort between Guam's policy makers and the Federal government. Recently enacted laws aimed at fostering economic development attest to the local government's commitment to expand the private sector. The rest lies with the Federal government.

The Guam business community is requesting your assistance in removing and/or amending certain restrictive Federal laws and regulations so that Guam can expand its economic base. The various concerns to be discussed herein are as follows:

- TAX REFORM: The mirror code system in its current form does not adequately address Guam's needs with respect to economic development. President Reagan's Tax Reform Proposal provides for Guam to develop its own income tax system, a measure supported by Guam's business community.

- GUAM COMMONWEALTH ACT: By public referendum, a majority of Guam's people elected to seek commonwealth status within the United States. A draft "Commonwealth Act" has been prepared for subsequent review.

- RETURN OF FEDERAL LAND AND THE REPEAL OF THE BROOKS AMENDMENT: Although 5,180 acres have been ruled to be "surplus" Federal land by the United States Navy in 1977, only 1,439 acres have been returned to the Government of Guam due to restrictive federal land disposal requirements. Given Guam's limited land mass of 212 square miles, the return of the "surplus" land at no cost to the Government of Guam is strongly recommended. The prohibitive restrictions accorded by the "Brooks Amendment" further hinders the development of 927 acres returned to the Government of Guam at Cabras Island. Guam does not have the needed capital to develop this land as prescribed in the "Brooks Amendment." H. R. 2884 authored by Guam's Washington Delegate, Congressman Ben Blaz would remedy this restriction, provide for economic growth, and give Guam the opportunity to become economically self-sufficient thereby reducing its dependency for assistance from the United States Government.

- FULL IMPLEMENTATION OF THE AMERICAN PREFERENCE POLICY: Minor amendments to Public Law 98-396 must be made to ensure that American contractors are being given a fair shake over foreign contractors in bidding for military construction projects.

- FEDERAL BARRIERS TO FISHERIES AND TRADE DEVELOPMENT: The three most serious impediments to fisheries development are as follows: (1) A provision of the Immigration and Naturalization Act prohibits alien crew members aboard United States vessels from disembarking for shore leave. However, this does not apply to crew members on foreign fishing vessels who can disembark for shore leave. A temporary waiver to this provision will expire on December 31, 1985. H. R. 2224 introduced by Guam's Delegate, Congressman Ben Blaz would rectify this anomaly if enacted into law; (2) The application of United States vessel documentation laws mandate that certain vessels used for commercial fishing purposes must be built within the United States. Given Guam's great distance from the continental United States, this application serves no bona fide national interest; (3) The Jones Act prohibits tuna purse seiners in the Port of Guam to offload their catch onto foreign fish carrier vessels for transhipment to United States canneries in Puerto Rico and the West Coast. Guam is the only American Territory in the Pacific that is subject to the provisions of this law.

  Headnote 3(a) of the United States Tariff Schedules is subject to administrative change at the whim of any Federal branch or agency, thus impeding further development in the manufacturing sector of our economy. The rationale behind Headnote 3(a) is to encourage a viable manufacturing industry for Guam and other United States Possession. Track records of firms doing business in Guam under this program seem to prove otherwise.

- TOURISM; IMPLEMENTATION OF UNITED STATES VISA WAIVER: Tourism is Guam's largest private industry. Visa waiver would thus enhance further growth of our visitor industry.

- GUAM'S ALIEN WORKER PROBLEM: Lack of programs to encourage learning of construction skills exists which thus permits importation of alien workers for construction activities. Congress should direct that a study be conducted to measure the impact alien workers are having on the island's economy.

Although the draft Guam Commonwealth Act does address a majority of the above concerns, the time period for ratification by both the People of Guam and Congress is tenuous. Guam can ill afford further delayed actions on these serious concerns. The time to act is now. Should you act favorably in the dissolution of these aforesaid barriers, Guam could not only be noted as a bastion of the United States defense network in the Western Pacific, but could conceivably become a bulwark of the American free enterprise system in Asia.

II. SUMMARY OF INTRODUCTORY REMARKS

SUMMARY
OF INTRODUCTORY REMARKS
by
MR. JESUS S. LEON GUERRERO
PRESIDENT AND CHAIRMAN OF THE BOARD
BANK OF GUAM

The gist of Mr. Guerrero's remarks traces Guam's economic development beginning in 1521, the year Guam was discovered by Ferdinand Magellan and thus came under Spanish rule. This barter system was the accepted method for the distribution of goods. When Guam was ceded to the United States following the Spanish-American War in 1898, the barter system prevailed, although on a declining scale. Vestiges of this system remain today.

In 1915, the Bank of Guam wholly owned by the United States Navy, was established. The bank was created principally to provide the services needed by the Territory and not for profit. The economic base consisted mainly of agriculture, fishing and government employment.

World War II brought economic development to a stand-still with the Japanese occupation of Guam. The Japanese Government owned everything. The people of Guam reverted to farming and fishing for subsistence.

Liberation of Guam by United States forces in 1944 by the United States Armed Forces brought an infusion of United States dollars into the economy. War claims damages were paid in excess of $8 million and $6 million was appropriated by Congress for reconstruction of Guam's villages. Money was readily available.

The enactment of the Organic Act in 1950 afforded United States citizenship to all Guam residents. Administration was transferred from the United States Navy to the Department of Interior. A civilian governor was appointed by the President and a Legislature was empowered to enact laws. The ships from an agricultural to an employment economy was on the increase with the military and local government — largest employers. Thus, imports increased substantially and the island's dependence on imports continues.

The lifting of the security clearance in 1962 opened Guam to investment and tourism. The Guam Economic Development Authority was established in 1964 to spur economic development and has been largely successful in attracting new businesses to Guam.

In 1970, Guam elected its own Governor. Since then, the economy has grown in leaps and bounds notwithstanding the adverse effects of external economic factors beyond our control (oil crunch and economic recessions). Presently, the Territory is supported by a $1.8 billion economy. The prognosis is good and continued growth is expected.

III. SUMMARY OF STATEMENT ON TAX REFORM: PRIVATE SECTOR'S PERSPECTIVE BEFORE THE SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

TAX REFORM: THE PRIVATE SECTOR'S PERSPECTIVE

The Organic Act of 1950 mandated that Guam's tax system be identical to the United States Internal Revenue Code using basically the same rates, exemptions, credits and deductions. The Government of Guam was given the authority for the collection of taxes and the administration of tax codes in the so-called mirror system. All IRC laws in effect at that time would apply to individual and corporate taxpayers, as would all future tax regulations and amendments without regard to their impact on Guam.

Statement of the Problem:

- United States tax treaties do not apply to Guam.
- The Internal Revenue Code is inappropriate to Guam's economy, and lacks flexibility.
- The mirror tax system does not raise adequate revenue.

Proposed Solution:

Delinkage from the mirror image application of the Internal Revenue Code (IRC) and develop Territorial Income Tax Law, through the enactment of Chapter 15.05 of President Reagan's Proposal for Comprehensive Tax Reform. The IRC as it exists today, will be frozen and adopted as Guam's interim code for a period during which a Joint Commission would be formed and serve as the mechanism for Congress and Guam to identify and propose what Guam's new tax relationship will be.

Economic Benefits of Proposed Solution:

- A Guam income tax system will provide for the attraction of business investment and the expansion of Guam's economic base.
- The Government of Guam's revenue requirements would be appropriately addressed.
- Fiscal autonomy would be attainable and necessary in light of continuing decline of federal spending for Guam.

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IV. SUMMARIES OF STATEMENTS BEFORE THE SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

GUAM'S COMMONWEALTH ACT

World War II and subsequent international and regional events have begun to influence the Territory of Guam. The political awakenings and pursuits of their respective identities among the Micronesian Islanders are bearing some impact on the people of Guam. The political relationship established by the Organic Act of 1950 is being evaluated. The 1982 plebescite vote to pursue a Commonwealth status reflected the people's wish for redefining the political relationship between Guam and the United States. To most, the plebescite results showed that Guam wants to retain its strong political ties with the United States while recognizing the need for greater self-government by the Territory.

The Commission on Self-Determination, established by Public Law 17-42 in 1984, is charged with the drafting of a federal-territorial relations act. This drafting process is presently on-going. The hope is that this process will eventually result in framing federal-territorial relations which reaffirms Guam's aspirations for closer political ties with the United States, while granting the Territory greater latitude in economic areas.

While it would be premature to comment on the specific merits of the preliminary Commonwealth Act draft provisions it is important to point out that the biggest changes being sought involve the lifting of economic development constraints. Some of these issues will be more fully treated in other papers being presented before this Subcommittee. These include tax reform, visa waiver for visitors and ship crews, temporary alien labor, the large federal landholdings and subsequent selected return to the local government and partial exemptions from the Jones Act. In each instance, waivers or exemptions from existing national laws are sought, because Guam's unique geographic location has made the application of such laws mimical to Guam's pursuit of economic development based on private enterprises. Guam's present economy is too dependent on the public sector and has been fueled in a large part by military activities and Federal grants.

Guam's attempts to address these development constraints in the past have been on an ad hoc basis. The forthcoming discussions on the Commonwealth Act draft between the federal and local governments will provide a forum where these various issues can be discussed in a more comprehensive fashion. While the final form of the federal-territorial relations act will have to wait until discussions between our respective negotiators are completed and the act itself receives ratification by the people of Guam and the United States Congress, it is not too soon to address some of the specific constraints inhibiting Guam's pursuit of greater economic self-fulfillment. Today's discussion will hopefully being us a few steps closer toward the realization of Guam's economic development potential.

THE RETURN OF FEDERAL "SURPLUS" LAND

The Department of Defense is a major land user on Guam and holds about one-third of Guam's land - 44,500 acres. The United States Navy has identified 5,180 acres of "surplus" federal land. Of such land, only 1,439 acres has been returned to the Government of Guam.

Statement of Problem:

The responsibilities of the Government of Guam to the residents of the Territory have increased significantly since its creation in 1951. Island growth has strengthened the need for further local economic expansion. The return of land no longer needed by the U. S. military is vital in meeting the Government of Guam's civic responsibility to provide commercial, industrial and residential facilities necessary to sustain and further induce this growth. Public education, health, transportation, essential power, water and communication utilities are burdened by an increased population. Infrastructural development is essential to sustain Guam's booming visitor industry and growth prompted by the increased homeporting of U. S. Naval ships on Guam. Guam is in need of the use of federal "surplus" land. Limited development funds, and statutory restrictions impede GovGuam's ability to purchase this land at fair market value. As a result, this land will not be purchased and no economic activity will occur. No benefits to either the Federal government or the Government of Guam will be achieved in terms of revenues.

Proposed Solution:

All federal land that has been identified as "surplus" by the U. S. military should be returned to GovGuam at no cost. Federal disposal requirements should be eliminated as regards such land. Upon conveyance, the Government of Guam will dispose of such property fairly and equitably to permit the use thereof for public purposes, economic development, entrepreneurial and agricultural activities.

Economic Benefits from Proposed Solution:

- The return of federal "surplus" land that is urgently needed by the Government of Guam at no cost for development of commercial, industrial and residential facilities responsive to civilian growth.

- The availability of scarce land to support economic development, farming, and other public purposes such as housing, education, transportation, health and essential services for island residents, thereby providing Guam the opportunity to achieve economic self-sufficiency and resolve its own affairs at the local level.

- Increased tax revenues for GovGuam as a result of economic development, reduced need for federal assistance thereby helping to eliminate one of the biggest problems facing the U. S. Government today: the Federal deficit.

REPEAL OF THE BROOKS AMENDMENT

On a small island where no other natural resources are present, optimal development of port facilities and ancillary industrial services at Apra Harbor and Cabras Island is essential to the Guam economy. The Commercial Port is Guam's only seaport.

Statement of the Problem:

The "Brooks Amendment" places prohibitive restrictions on the development of the 927 acres of federal "surplus" land returned to the Government of Guam at Cabras Island, by requiring that at least 70% of all land revenues be paid back to the U. S. Treasury. Them amendment made the prospect for locally-initiated development of this land unattractive and unrealistic. Guam's lack of capital improvement and development funds makes development of this land problemmatic. Existing terrain and a large proportion of submerged land involved will cause unusually high infrastructural development costs. As a result, there has been no economic development on the land thus far: economic development which could otherwise create new jobs and increase the existing tax revenue base for the Government of Guam.

Proposed Solution:

- A repeal of the "Brooks Amendment" as proposed in H. R. 2884 and the removal of prohibitive requirements governing the disposal of returned federal land at Cabras Island.
- The enactment of H. R. 2884, consistent with the recommendations of the U. S. Navy that would provide for the return of this land at no cost to the Government of Guam.
- The creation of a Cabras Island Development Fund that would be financed by all revenues received by the Government of Guam from the disposal of such land; Expenditures of this Fund would be solely for economic development (such as area infrastructural improvement, capital improvement projects and the maintenance or upkeep of plant and capital structures) as delineated in the "Commercial Port of Guam Masterplan as Revised."
- Authority for the Government of Guam to collateralize such land for the purpose of acquiring the financial resources needed to accomplish such development.
- All land returned to, and revenues received from the disposal thereof by the Government of Guam would be managed by the Board of Directors of the Port Authority of Guam. Expenditures made under the Fund would be subject to federal oversight and audit activities as the United States Congress shall deem fit.
- Favorable eligibility consideration of Cabras Island under federal enterprise zone legislation now pending before the United States Congress.

MILITARY TRANSPORTATION BENEFITS

Approximately 50,000 United States servicemen and women are stationed in Japan and Okinawa. Thousands more are assigned to Korea, Taiwan and the Philippines. While a serviceman stationed in Europe can buy a U. S. specification vehicle there, drive it around for a year and have it shipped home at the government's expense, a serviceman assigned to Japan or Okinawa can neither bring a U. S. specification vehicle to Japan or buy one there to take back home. Further, service-members who purchase Japanese vehicles in Japan are forced to sell their vehicles at "distress prices" because U. S. specifications and safety requirements prevent them from taking these vehicles home.

Many military personnel stationed in the Far East have discovered that they can cut these losses by buying a car that meets United States specifications on Guam when returning back to the States. Guam is the only location west of Hawaii where such cars are available. Annually, only about 1,200 service-members have been purchasing U. S. specification vehicles in the United States, i.e., Guam.

Guam has now been eliminated as an alternate port and place of auto purchase for servicemen in Japan effective September 30, 1985. Service-members will lose the overseas benefit of transporting vehicles on military vessels to their next duty station.

Statement of the Problem:

- American businesses and jobs would be seriously affected.
- The level of bussines activity would be reduced and correspondingly reduce the island's tax base. Loss of jobs will be realized in the automobile insurance business, to name a few.
- Loss of revenues to the Port of Guam.

Proposed Solution:

- An an alternative to the unrestricted reinstatement of the benefit, it is proposed that a $1,500 reimbursement be paid to any serviceman stationed in Japan or Okinawa (who would have qualified under old benefit regulations) upon the purchase of any U. S. specification vehicle within 3 months prior to or after a move to any new duty station.

Economic Benefits of Proposed Solution:

- Continued preservation of revenued to the Port Authority of Guam and retain shipping of vehicles to U. S. posts on U. S. ships held by American citizens.

- Retention of jobs in Guam employed by local auto dealers.
- Enhance the attractiveness of the Orient as a desirable overseas assignment for military personnel.
- Sustain revenues generated for the Government Guam through license fees and others imposed by the Government of Guam.

FULL IMPLEMENTATION OF THE AMERICAN PREFERENCE POLICY

Congress enacted an "American Preference Policy" in Public Law 98-396 that would apply to the award of military construction contracts in Guam and other United States-administered areas of the Pacific. Minor amendments are needed to the Policy to ensure that the will of Congress is carried out.

Statement of the Problem:

- Foreign contractors, using home-government subsidies and readily available, easily-exploited alien workers, are able to under-bid American contractors for federally-assisted construction contracts — some of which are located on security-sensitive defense installations on Guam.

- Insufficient enforcement of Federal laws that regulate employment and attractive foreign currency exchange rates makes it impossible for American contractors to compete for government contracts. Many U. S. builders have withdrawn from Guam in recent years because of the unfair competition.

- Local workers are discriminated against, allegedly because they do not speak Japanese, Korean or Chinese; and because they know their rights under wage-hour laws.

- Local businesses do not benefit from the presence of alien workers because most of their earnings are sent home, not spent in Guam.

- Most of the alien workers now in Guam are exempt from Social Security Tax, and local taxation officials report extreme difficulty collecting the income tax due from these foreign workers.

Proposed Solution:

- Lowering the $5 million threshold at which the Preference Policy takes effect will help that there are ample opportunities for U. S. firms to sustain an "American contractor presence" in the Pacific.

- Elimination of the formula that allows a foreign firm to bid 20% under U. S. firms to win a contract; and simply prohibit "international" bidding unless all U. S. firms have exceeded the government estimate for a project.

- Clearly define the term "U. S. contractor" so contracting officials will not interpret the Policy to suit their own purposes.

- Strengthen compliance with the Fair Labor Standards Act, Occupational Safety and Health Act, Equal Employment Opportunity and other laws regulating employment in the United States.

- Repeal exemptions to the Federal Insurance Compensation Act and prohibit changes in visa status while aliens are working on Guam.

Economic Benefits of Proposed Solution:

- American contractors and American workers will be given a fair and equal opportunity to perform work that is paid for by the American taxpayer, and the proceeds of federally-assisted construction will remain in Guam's economy.

- United States strategic interests in the region will be maintained by preserving a nucleus of American contractors and workers who have historically stood ready to serve American defense interests.

- Improved training and employment for local residents.

- Significant contribution to the island's overall economic health and strengthening of the local tax base.

IMMIGRATION: ALIEN CREW ON U.S. FISHING VESSELS

The application of a provision of the Immigration and Naturalization Act [8 U.S.C. 110 (a)(15)(d)] to Guam prohibits alien crew members aboard U.S. flag tuna vessels from temporarily disembarking from such vessels fro shore leave and recreation on Guam. The same alien crew members if aboard non-U.S. flag vessels are allowed to disembark their vessels on Guam for shore leave. The original purpose of this law was to prevent illegal immigration of aliens from South America on tuna boats through San Diego in the late 1940's and 1950's.

Statement of the Problem:

- The original purpose of this law has not relevance to Guam since Guam is not a point of entry to the U.S. for aliens.
- Since alien crew members on foreign flag fishing vessels can freely disembark from such vessels on Guam, it places U.S. flag fishing vessels in a disingenuous disadvantage relative to foreign vessels.
- Law constitutes a severe impediment to the development of Guam's fishing industry.

Proposal Solutions:

- The enactment of H.R. 2224 introduced by Guam's Congressman Ben Blaz. The immediate enactment of H.R. 2224 is critical since the existing waiver granted by INS is only a temporary measure and one which will expire on December 31, 1985.

Economic Benefits of Proposed Solution:

- Investor confidence would result once the applicability of this law is removed legislatively.
- Stability would contribute to Guam's increased participation in the fishing industry in the region since Guam is ideally situated in terms of location and infrastructure.

JONES ACT: PARTIAL EXEMPTION FOR TUNA TRANSSHIPMENT

The Jones Act [46 U.S.C. 883 and 887] forbids tuna purse seiners in the Port of Guam to offload their catch onto foreign fish carrier vessels for transshipment to U.S. canneries in Puerto Rico and the West Coast. Accordingly to escape the Jones Act, the purse seiners are compelled to travel some 100 miles north to our American sister territory, Tinian of the Northern Marianas, to offload their tuna to foreign fish carrier vessels for shipment to the West Coast and Puerto Rico.

Statement of the Problem:

- Development of a fishing industry on Guam is being directly impeded by the Jones Act.
- Dichotomy of the Jones Act applicability between Guam and its American flag neighbors places Guam at an extreme and unfair cost disadvantage.
- U.S. flag vessels do not serve ports like Puerto Rico to which Guam needs to deliver fish.

Proposed Solution:

- Congressional amendments to the Merchant Marine Act of 1920, better known as the Jones Act.

Economic Benefits of Proposed Solution:

- Guam can truly expand its economic base through the development of a commercial fisheries industry.
- Meaningful return on the Federal Government's investment at the Port of Guam would be realized.
- Existing Port of Guam infrastructure can be more efficiently utilized.

REPEAL OF VESSEL DOCUMENTATION LAWS

The application of U.S. vessel documentation laws mandate that certain vessels used for certain purposes (e.g., dredges, commercial fishing vessels, and possibly tugboats) must be built within the U.S. Under current law, cargo ships carrying cargo to and from Guam from U.S. ports, while must be on U.S. flag, need not be built in the U.S. [46 U.S.C. 65(h)]. Our neighbor, the Northern Marianas, is exempt from the requirement that their commercial fishing vessels be built in the U.S. by virtue of a Presidential Proclamation. Also, foreign built dredges may be utilized in the Northern Marianas and indeed are so being utilized.

Statement of the Problem

- Given Guam's great distance from the mainland United States, the development of any locally-based fisheries industry is being severely thwarted.
- Residents of Guam are unable to purchase new fishing vessels to be used on Guam because of the prohibitive cost involved to purchase fishing vessels in the United States.
- Dredging activities have been severely retarded.

Proposed Solution

- The introduction and enactment of legislation in the Congress which would amend vessel documentation laws to allow vessels owned by residents of Guam and used in this locale to be documented as U.S. flag fishing vessels irrespective of where such vessels are built.
- Extension of Congressional exemption to include vessels engaged in towing, barges, dredges, vessels or boats leased, or rented or chartered to another for any use, including, without limitation, vessels used to take out chartered fishing and living parties or sightseeing tours.

Economic Benefits of Proposed Solutions

- Locally-based fishery activity would be possible and allow the participation of local residents in Guam's fisheries development.
- Guam will be placed on an equal legal footing with its American flag neighbors, and thereby enable Guam to be cost competitive.
- Existing Port of Guam facilities would be more efficiently utilized.

AMENDMENTS TO GENERAL HEADNOTE 3(A)

Under Headnote 3(a) of the U.S. Tariffs Schedules, Guam and other insular possessions of the United States outside the U.S. Customs Territory are permitted to export to the United States and its Customs Territory those products manufactured in Guam. This trade program benefits the local manufacturer in two ways: that of being permitted to import raw valuable for manufacturing tariff free, and providing access to a quota-free United States market free of tariffs.

Statement of the Problem

- Quota restrictions are easily imposed by agencies or branches of the Federal Government.
- Rules affecting its application are subject to change by the Federal Government.
- Potential investors are wary to invest in Guam under this program, based on track records of firms previously doing business in Guam.

Proposed Solutions

- Enactment of H.R. 2225 introduced by Congressman Ben Blaz to amend Headnote 3(a) to address the problem being faced now by Guam's fledging textile industry.
- The larger solution would be the enactment of legislation with would ensure that not action could be taken under Headnote 3(a) to set a quota or to otherwise reinstate the law in such a way as to either shut down or badly hamstring a nascent Guam industry lawfully set up under Headnote 3(a).

Economic Benefits of Proposed Solutions

- Existing textile manufacturer could then increase production and hire more employers.
- Guam would attract other firms to invest in Guam, resulting in increased employment opportunities.
- Ultimately, Guam could become a manufacturing center in the Western Pacific.
- Guam's dependence on Federal aid would be reduced as a result of an expanded economic base.

IMPLEMENTATION OF U.S. VISA WAIVER

The United States Congress in the fall of 1984, passed Public Law 98-454 (Omnibus Bill, Provision 602) which provides for a waiver of non-immigrant visas for Guam. This law amended Section 212 of the Immigration and Nationality Act (8 U.S.C. 1182).

Status of U.S. Visa Waiver

In August 1985, the Interior Department sponsored a conference on Guam to discuss the potential of tourism in the Pacific Basin. Following that meeting, an ad hoc bipartisan task force was formed to examine what could be done under the law and within administrative regulation to improve Guam's tourism potential. The task force has now forwarded its recommendations to the U.S. Immigration Service and Department of Interior for their review.

The Territory of Guam is now awaiting action by a federal task force comprising of USINS, the Departments of Interior and State, to meet, as required by PL 98-454. With the approval of the federal task force, Guam can begin a promotional program to encourage visa free travel from some Asian countries and a Guam Only Entry Permit for others. It is the opinion of many on Guam that this increase in tourism will lead to expanded air services and that Guam will then have an opportunity to become the regional headquarters for American businesses in Asia. The next step will then be the establishment of Guam as the banking/financial center in the Asia Pacific rim.

Economic Benefits of Visa Waiver

- Increased visitor arrivals would lead to expanded air service for Guam.
- Guam's tourism growth will correspondingly increase the island's contribution to American services exports to Asia.

GUAM'S ALIEN WORKER PROGRAM

Congress should direct that the General Accounting Office conduct a study to measure the impact that imported workers are having on the island's social and economic structures.

Statement of the Problem

- The ready availability of alien workers tends to suppress employment opportunities for local workers. Relatively little money paid to alien workers stays in Guam's economy.
- Guam Community College needs additional federal and local resources to strengthen construction apprentice training program.
- Federal and local government agencies perform a great deal of construction and maintenance work on an "in-house" basis. Maintaining separate workforces and limits the amount of work available to private contractors who must import construction workers.
- There is no mechanism to require that local workers and apprentices be employed to train to take jobs held by alien workers.
- the importation and employment of alien workers entering Guam on H-2 visas needs to be limited and controlled.

Proposed Solutions

- H-2 workers should only be permitted to enter Guam when construction activity reaches specific levels.
- There should be strict limitations on the length of time an alien worker may be employed in Guam.
- Alien workers should not be permitted to change their visa status while in Guam.
- Congress should examine the practicality of enacting a limited amnesty for out of status aliens stranded in Guam by economic dislocations that took place in the late 1970s.
- The U.S. Department of Labor and the Immigration and Naturalization Service should work with Guam's building industry to set limits on the number of H-2 workers allowed into Guam.
- A "local employee" requirement should be met by those seeking to import alien workers.
- Federal and local government entities should be compelled to "contract-out" more construction and maintenance work to ensure a continuing availability of work for local employees with building trades skills.

Economic Benefits of Proposed Solutions

- Increased career opportunities for local residents.
- Greater contributions to the local tax base.
- Reduced "outflow" of wages paid to alien workers.
- Stabilization of construction activity, ensuring steady employment for local residents.

V. BIOGRAPHICAL DATA ON BUSINES DELEGATION

JESUS S. LEON GUERRERO:

Jesus S. Leon Guerrero is the Founder, President and Chairman of the Board for the Bank of Guam, the only locally owned and locally chartered banking institution on Guam. He is also the Civilian Aide to the Secretary of the Army, an appointment he received out of Washington, D. C. Prior to the establishment of the Bank of Guam, Mr. Leon Guerrero was the Regional V-Persident for the entire Bank of America network throughout the Western Pacific. His civic and community activities include membership in the Guam Chamber of Commerce, the Air Force Civilian Advisory Council, Past Chairman of the Board for the Guam Economic Development Authority, Past President for the Medical Center of the Marianas, Guam Rotary Club, Board of Advisory for Junior Achievement, Board of Trustees for St. John's School, Guam Heart Association, and the American Red Cross.

PHILIP J. FLORES:

Philip J. Flores is a Director of the Guam Chamber of Commerce, President and Chairman of the Board of the Guam Savings and Loan Association, Marianas Finance Corporation, Casa de Flores, Incorporated, and Our Lady of Peace Memorial Gardens. He was recognized recently in "Who's Who In America" in Finance and Industry. He is also Past President of the Rotary Club of Guam and a Director on the Board of Junior Achievement of Guam.

SIMON A. SANCHEZ, II

Simon A. Sanchez, II is a Director of the Guam Chamber of Commerce, President of Sanchez and Associates, Incorporated and Station Manager of K-57 Radio, Incorporated. He is Vice-Chairman of the Public Utilities Commission on Guam and serves as the Chamber of Commerce's liaison to the Commission on Self-Determination's Economic Task Force. Mr. Sanchez was formerly employed as Resources Development and Promotions Officer with the Guam Economic Development Authority and Policy Analyst with the Guam Legislature.

ROBERT H. JONES:

Robert H. Jones is President of Triple J Enterprises for Saipan and Guam, and a Director and Stockholder of Tony Roma's. He has just retired as a Director of the Guam Chamber of Commerce of over 20 years. He is also the former Executive Vice-President of J & G Company, Incorporated. He is Vice-Chairman of the Guam Visitors Bureau, and a member of the Guam Automobile Dealers Association. His other civic activities include serving as Vice-President of the Aloha Council of Boy Scouts of America, Jaycee Senator, former Vice-President and Charter Member of the Guam Jaycees, and former President of the Guam Football Association. Mr. Jones was also recognized as the 1983 Businessman of the Year.

GERALD S. A. PEREZ:

Gerald S. A. Perez is Vice-President of Retail Operations for Duty Free Shoppers, Limited on Guam, and President of the Micronesian Reginal Tourism Council. His community activities include serving as Chairman of the Board for KUAM, Director for Santuary, Co-Chairman of the Andersen Air Force Base Community Council, Member of the Guam Visitors Bureau and the Pacific Area Travel Association. Mr. Perez has also served as President for the Guam Chamber of Commerce, and remains an active member. He has served in the Government of Guam as Director for the Bureau of Budget and Management Research, and the Department of Land Management. He was Acting Dean of the College of Life Science at the University of Guam and Deputy Director of the Department of Agriculture.

E. L. "BILL" GIBSON:

Mr. Gibson is Executive Director of the Pacific Management Resource Group, a private, nonprofit organization that includes the Guam Employers Council, the Saipan Employers Council and the Building Industry Association. He has held this position since 1979. A resident of Guam since 1958, Mr. Gibson is a former journalist and served in government as Press Secretary for the Governor of Guam. Gibson worked in Washington, D. C. for the Department of Interior and the Department of Justice. He is Chairman of the Committee for Employer Support of the Guard and Reserve. A Navy veteran,he is a member of the American Legion and the Rotary Club of Guam.

ROBERT E. BLACK:

Mr. Robert Black is President and Chief Executive Officer of E. E. Black, Ltd., a major building contractor with offices in Hawaii, Guam, Saipan, the Philippines and Indonesia. The Black Construction Company has built much of Guam's commercial, government and military infrastructure. Mr. Black is a graduate of the University of Cincinnati and was a field officer in the U. S. Army Air Corp. Mr. Black serves on the Boards of several public foundations and trusts, and private corporations. He is an active member of a number of civic organizations.

ELOISE R. BAZA:

Eloise R. Baza has been the President of the Guam Chamber of Commerce since 1984. Prior to joining the Chamber, Ms. Baza was employed as an Economist for Guam's Department of Commerce where she acquired a working knowledge of Guam's economic development concerns. Meshing this background with the private sector's objectives has contributed to a well-rounded perspective of the islands economic development needs. Ms. Baza holds the distinction of being the first woman to attain the office of the Chamber's Presidency.

Delegate BLAZ [presiding]. Thank you very much, Ms. Baza.

I think what we will do here, since the chairman has left, is just go ahead with the rest of the testimony, and then we will ask questions after you have completed the entire panel.

Who is going to proceed next?

Mr. SANCHEZ. Congressman, that's the basic presentation of the chamber. Mr. Guerrero and I are simply here to assist.

Delegate BLAZ. You don't have a statement of your own, then?

Mr. SANCHEZ. No, Congressman, no statement of my own. I just found out last night that this morning I will be a tax expert, so I do not have a prepared statement with me, but I would like to bring up a couple of things, if I may.

Delegate BLAZ. If you would. Just bear in mind that the reporter has to listen carefully, so please speak loudly, so he can hear you.

Mr. GUERRERO. Oh, I'm sorry. I would like to make a couple of statements, if I may.

Delegate BLAZ. Please.

TESTIMONY OF JESUS S. LEON GUERRERO, PRESIDENT AND CHAIRMAN OF THE BOARD, BANK OF GUAM

Mr. GUERRERO. One of them really is of personal interest, because it has something to do with the Bank of Guam, the bank that I represent.

There is a provision in the Internal Revenue Code, section 82e, which provides that possession banks, meaning the bank owned by the territory, chartered in the territory of Guam, are subject to Federal taxes on interest earned from Government securities. That, I think, is a very discriminatory section of the law, because the Bank of Guam, for example, is the only corporation in Guam that's paying taxes to the Federal Government.

I think the reason why that provision came into existence was merely a mistake, an oversight on the part of Congress, when years ago, they amended the IRS provision regarding 30 percent withholding taxes on corporations doing business in Guam, and somewhere, somehow, because there was no Bank of Guam back in those days, they overlooked that, and those provisions were never eliminated.

I am supporting the delinkage approach, because it will take care of that particular provision. I'm not just supporting it for that reason alone. I think it good that Guam should administer and operate its own tax system.

The other point that I would like to raise is the need for using our tax capability as an incentive to bring in more capital or to induce investment in the territory of Guam.

Earlier, the question was raised concerning competition—capital competition in the capital markets in Asia. There is a strong competition for capital in that part of the world, and that is why the linkage, having the flexibility of Guam enacting or amending the Internal Revenue Code is appropriate; so that we will be able to meet any competitive situation when it comes to taxation against or with any country in Asia. I think that is important, because we have to be competitive in the capital money market in Asia. I would like to make sure that whatever the outcome of the delink-

age, of the resultant tax, we would respect the integrity of the Guam Economic Development Authority, because we have made contract commitments already to a number of corporations who are now enjoying tax exemption under qualifying certificate privileges.

That particular provision brought in approximately $250 million in immediate capital in the territory of Guam, so it was a very successful program, and I want to make certain that that program is retained.

Those are the only two statements that I would like to make at this time, Congressman.

Delegate BLAZ. Thank you every much.

Mr. Chairman, Ms. Baza has made a statement and Mr. Guerrero has made a statement. Mr. Sanchez has not yet had a chance to make a statement.

Senator SYMMS [presiding]. Mr. Sanchez, do you have a statement to make?

TESTIMONY OF SIMON A. SANCHEZ II, PRESIDENT, SIMON A. SANCHEZ II & ASSOCIATES

Mr. SANCHEZ. Just a couple of brief comments on what Mr. Shay of the Treasury brought up.

The question on whether Guam residents must pay Federal taxes on non-Guam-sourced income is something that needs to be deliberated between Guam and the Treasury. When you look at it, you have to look at the broader context, Guam U.S. citizens are a different type of U.S. citizen than the U.S. citizens of the 50 States. If you are going to ask us to contribute tax revenue to the Federal coffers on income earning outside of Guam, I think you have to look at that in the context of whether other rights of citizenship that Guam U.S. citizens don't fully enjoy, are we going to be able to trade and benefit?

In other words, we don't mind paying the Federal tab, if we are allowed to be more of a full U.S. citizen. And you are going to have the opportunity in the next few years to look at the political status process now going on in Guam, and some of the discussion will focus on how should Guam U.S. citizens pay or not pay a tab to the Federal coffers for income earned outside Guam?

And don't think it's going to be an easy solution, because you are going to have to also ask the question, how can Guam U.S. citizens be more complete U.S. citizens, if that, indeed, is where Guam citizens want to go.

The only other comment I have is this: There is a section in the current Code, section 936, which was designed to encourage U.S. investment in the territories. Guam has not used that to the extent that other U.S. territories have, particularly those in the Caribbean, mostly because of ignorance and the later emergence of Asia, in the last 10 years as a good trading partner.

There is discussion as to whether to can 936 completely or to modify it. The concern in the Caribbean was that U.S. companies would go to the Caribbean under this section to minimize their Federal tax burden by shifting certain types of investment to the Caribbean.

These investments—I don't understand it fully—were not labor-intensive, in the sense that they would be things like patents. Pharmaceutical companies in Atlanta would go to Puerto Rico and sell patents to the Puerto Rican company and avoid Federal taxes altogether.

Discussion now is to still encourage U.S. companies to invest in the territories but do it in things that create tangible economic benefits like jobs, tying tax relief to a U.S. company if you invest in the territories in proportion to the number of jobs you create.

I think that is the kind of approach that the Congress should consider.

We don't want to discourage our own Americans to invest in the territories, and I think the territories, given the uniqueness of them, need some incentives to American investors to come to the territories, and particularly, the case of Guam, with Asia growing the way it is, we want American companies to come to Guam, create American jobs and trade with Asia just 3 hours away.

So personally, I don't know whether we want to get rid of the incentives that are currently in the Code, but we do want to get rid of the abuses.

We don't want to be a tax haven, but if you come and create some American jobs on Guam, we should encourage you to do that and use the Federal Tax Code, to the extent that is fair, without abusing it, to have American companies invest in Guam, to trade with Asia, employ Americans and not get overly burdened with the Federal tax.

Senator SYMMS. What is the population of Guam right now?

Mr. SANCHEZ. We have got about 110,000—120,000 people.

Senator SYMMS. And what is the approximate square miles or acres of the island—the size?

Mr. SANCHEZ. About 212 square miles. We have a labor force of about 35,000 people. We suffer from 9 to 12 percent unemployment, and we have a tremendously capable workforce just hungry for jobs.

Senator SYMMS. What is the potential fresh water supply there?

Mr. SANCHEZ. At this point the studies indicate that we have a good supply through the early 21st century.

Senator SYMMS. What I am getting at is what does it look like in terms if you had an increasing, growing economy and increasing population. I would think there would be a limitation on water.

Mr. SANCHEZ. I think Guam can support a much larger population. We know it can support a much larger economy. I don't think there are any natural restrictions to a far more aggressive economy, more job creation and more people coming to Guam.

Senator SYMMS. What are the benefits of citizenship on the mainland that a Guam citizen of the United States does not enjoy?

Mr. SANCHEZ. You can vote for President; a U.S. citizen in the mainland can vote for President and vote for two Senators from their State and can vote for a Congressman from their district, and their Congressman have voting rights on the floor. Our Congressman does not have voting rights on the floor, nor can we vote for President.

Senator SYMMS. Is that the extent of the difference—the franchise?

Mr. SANCHEZ. It is one of the core differences. Under the U.S. Constitution, the only section having to do with territories, article IV, you, the Congress, handle the territories. It was envisioned back then that all territories would eventually become a State and then they would become part of a State-Federal relationship. That has never happened.

Therefore, Congress has been very inconsistent in the administration of the laws, has been very inconsistent in territories that have not become States, such as ourselves and Puerto Rico and Samoa.

Senator SYMMS. If in fact a Guam citizen moves, say, to California, they can then register to vote there after they have lived there——

Mr. SANCHEZ. You would lose your voting rights on Guam.

Senator SYMMS. OK. Well, let me ask a couple of questions with respect to—and thank you for that answer, just for my own education.

Ms. Baza, could Guam's adoption of a tax code different from the Internal Revenue Code prove to be a disincentive for companies looking to invest in Guam who may be more familiar with the Internal Revenue Code?

And if either one of the two gentlemen want to comment on it, I would welcome their comments.

Ms. BAZA. If an investor feels very comfortable with the Internal Revenue Code and chooses to live with that code, then my answer to your question is "yes."

However, what we are looking for in the way of an appropriate income tax code for Guam is one which would offer the types of tax incentives which would make us a viable location for investment; and remove the administrative burden and the unnecessary paperwork, and all the administrative matters pertaining to the Internal Revenue Code that may conceivably not be the case with respect to an appropriate income tax system for Guam.

Senator SYMMS. Mr. Sanchez.

Mr. SANCHEZ. Mr. Chairman, the basic consensus now of the chamber is that we want to freeze the code prior to Reagan II and the work that you are doing right now in order to keep it revenue neutral, No. 1.

No. 2, there is a vast body of legal and administrative precedents based on the administration of the IRS in Guam, and we don't want to throw that out the window. It would discourage investment to U.S. companies that would have to then educate themselves on a code that might be different than currently exists at the Federal level.

But we also want to be a little more progressive and innovative someday down the road—and we suggest there be a joint commission of the Federal and the local Government so that we together start to think about how can we encourage American companies to come to Guam and invest in trade with Asia while not discouraging Asians or particular U.S. companies doing business in Asia that now would like to come back to a U.S. base such as Guam. We must recognize that Guam is much closer to Asia and must compete to attract investment there at a far different level than mainland States have to compete.

So the idea is just to be a little more innovative in recognizing Guam's unique position on that side of the planet, not to discourage U.S. companies to come to Guam because they have a code that they are going to be unfamiliar with; have this joint commission to educate both sides and design a tax code that keeps us part of the American system but recognizes that this little part of America is 3 hours away from Asia.

Senator SYMMS. Well, Mr. Guerrero, I just came back in the room and you were making some comment about oversight in the Tax Code with respect to interest on—was it Treasury bills? Maybe I didn't understand.

Please edify me on that again.

Mr. GUERRERO. There is a section IRS, section 82(e), which provides that possession banks would have to pay a Federal tax——

Senator SYMMS. Possession banks?

Mr. GUERRERO. Yes; possession banks would have to pay Federal taxes on interest from Federal securities—U.S. Government securities.

Senator SYMMS. So that puts you at a disadvantage competing against a bank, say, in Los Angeles?

Mr. GUERRERO. Yes.

Senator SYMMS. Can they put a branch office out there and compete against you?

Mr. GUERRERO. If I put a branch office out here, that branch office will be paying Federal taxes and State taxes and everything else because it is located in the United States.

Senator SYMMS. So you do have several banks in Guam now?

Mr. GUERRERO. Yes.

Senator SYMMS. Local?

Mr. GUERRERO. We have American banks. We are the only local bank, so we are the only one that is affected by that.

Senator SYMMS. So you have one arm behind your back in your competition there?

Mr. GUERRERO. That is correct.

Senator SYMMS. I see; well, that is a very interesting point. We will have to obviously look at that carefully.

Ms. Baza, I take it from your testimony—from all three of you—that you all three support, then, delinkage from the current mirror tax system?

Ms. BAZA. That is correct.

Mr. GUERRERO. Correct.

Senator SYMMS. And you all agree with that. OK.

And the President's tax proposal also includes the elimination of section 936 corporations.

Are there any business corporations taking advantage of 936 now or businesses?

Ms. BAZA. Yes.

Senator SYMMS. I think somebody mentioned it would be very harmful, or what would happen?

Ms. BAZA. There are two, or possibly three at the most, companies participating under section 936. Guam has not taken full advantage of the tax incentives being offered under 936. I believe at present of the three, none of them are active with respect to this particular position.

So in terms of a major impact, because there is minimal participation in 936, the impact will not be significant. However, we feel that there is potential for growth in this area, and certainly the elimination of 936 would prevent us from a source to expand our economic base through the establishment of more possession corporations.

So not too many firms are participating in it, but there is a potential for growth.

Senator SYMMS. Well, then why isn't any company participating in 936 now? Is there any reason for it?

Mr. SANCHEZ. I think the biggest reason is, in part, ignorance that the tax exemptions do apply to Guam and the late development of the Asia market for an American investor.

The Caribbean—Puerto Rico in particular—has used 936 to a very large extent. I think over 1,000 companies use it. In Guam, less than 10.

The idea is that if you are an American company and you come and invest in the territories, we will give you some Federal tax benefits to create an incentive to do down there, the theory being that these territories need a chance to get going.

Now, I don't think that is a bad theory to apply to Guam. That 936 actually should be kept in some form, as long as you create some tangible economic real impacts down there.

Much of the problem with 936 in the Caribbean territories has been the transfer of what I call noneconomic assets, such as patents, which allow U.S. companies to just avoid some tax that they might otherwise pay if they didn't invest in the territory.

Well, they can get around and move a patent to a territory and lower the Federal tax. Well, patents are great, but they don't create that many jobs. It is just a transfer of scientific knowledge.

The discussion at Treasury was to link it now to job creation, which I think is the kind of policy that this country wants for all Americans and in particular to encourage Americans to go to the territories, but go there and create real jobs. We don't want you to play the tax haven games and minimize your tax responsibility to the Federal Government; but, if you go to a territory and create some jobs so they don't have to rely on Federal support.

We have over 25,000 people receiving some sort of Federal subsidy.

Senator SYMMS. Out of 100——

Mr. SANCHEZ. Out of 120,000.

Senator SYMMS. Twenty percent of the population.

Mr. SANCHEZ. Some sort of section 8 or welfare or food stamps, some sort of Federal transfer payment.

Senator SYMMS. What did you say the employment level was?

Mr. SANCHEZ. It will vary between 9 and 12 percent throughout the year. Sometimes—we graduate 2,000 high school students a year, and the bulk of them leave Guam and don't come back because they don't have enough opportunities.

Senator SYMMS. What is the food self-sufficiency there? I asked about water.

Mr. SANCHEZ. We grow very little of our own food. We import almost everything.

Our economy, even though we don't have the same number of people, will be very similar to Japan's, where everything is imported, and the one economic asset we do have is labor. We have got tons of labor, and we should consider policies that encourage manufacturing development on Guam, and creates those types of labor-intensive industries to employ that service labor, and then we can sell you some fish products.

Senator SYMMS. Thank you very much.

Congressman, do you have some questions?

Delegate BLAZ. Yes. Let's go back to the tax.

Is there a benefit to flat taxes for a corporation on Guam?

Just anyone.

Mr. SANCHEZ. It would be a benefit only to the point that American companies doing business in Asia might be interested in relocating to Guam. Hong Kong has a flat tax, and in the next 17 years we are going to see some interesting movement out of Hong Kong from U.S. companies. They are trying to decide what to do.

Now, if we encourage relocation to Guam with a flat tax, we would be competitive with Hong Kong. The only thing you have to be careful of is tax alone isn't the only reason companies come to a place. We still have to provide an educated labor force, which Guam would do.

We are fully American, and you still want to have access to your market, and that is probably Guam's biggest holdback right now.

I mean, if I want to sell to Asians, I would love to be on that continent rather than 3 hours away. But it would encourage American companies in Asia to consider it.

Senator SYMMS. Just another question, if I can interject here just for my own education. Next to English, what is the most prevalent language spoken in Guam?

Mr. SANCHEZ. The native language, the Chamorro language.

Senator SYMMS. Is it spoken more than English or is English the primary language?

Mr. SANCHEZ. English is probably the primary language. It's taught in schools. English is the language in the schools and the language of the government.

Senator SYMMS. And what did you call the other language?

Mr. SANCHEZ. The Chamorro language.

Senator SYMMS. Do all of you speak both?

Mr. SANCHEZ. I don't.

Ms. BAZA. I do.

Mr. GUERRERO. You can look at me and I'm sure you can tell.

Senator SYMMS. So the younger generation speaks English only?

Mr. GUERRERO. Yes. Not all the younger generation, but the greater percentage of the younger generation.

Mr. SANCHEZ. I do speak Samoan. My mother is Samoan.

Senator SYMMS. I see. Any other questions?

Delegate BLAZ. If we were to ask a question—and I want you to think about this for a second—what would be the two things that you'd like—if you had the power right now to make a change from the economic standpoint, what would be the two things that you would want to change if you had the power to do it, either by the Congress or by the administration?

Take away voting for the President.

Mr. SANCHEZ. Maybe this is a copout, but I wculdn't change the laws. I would change the perceptions that currently exist here in Washington about their U.S. territories, to recognize that they should be an asset to the country, that they are Americans out there that are not full Americans and would dearly love to be in some form that is fair, and that it's time for Washington to start to look at Guam in particular in a far different way than it has for the last 30 years.

Delegate BLAZ. That's one.

Mr. SANCHEZ. Change the perceptions and the laws will come.

Delegate BLAZ. Eloise.

Ms. BAZA. I think the single most important thing that Guam requires for economic growth is for Guam to be given the opportunity to identify and select what industries it wants located there, industries which would provide the kinds of jobs for which the people of Guam are looking for, and in order to attract those jobs to Guam we must have an attractive income tax package.

Delegate BLAZ. How about you, Mr. Guerrero?

Mr. GUERRERO. I think I will say one is clearer and more definitive U.S. policy regarding Guam's economic development and the recognition of certain impediments, changing those impediments or eliminating them.

No. 2 is a closer and more permanent political relationship between Guam and the United States.

Delegate BLAZ. How close do you want to get?

Mr. GUERRERO. Closer than we are right now. We are too far apart now. I would like to make one more additional statement if I may, if it's all right with you.

I have been thinking about our neighbors, the Commonwealth of the Northern Marianas, FSN, and the Marshall Islands. The compact of free association is before Congress. I think we have to be very, very careful when we talk about taxes vis-a-vis the kind of taxing powers and taxing authority that they may have versus what we have in Guam, so that it would eliminate any undue competition in taxes in the islands located in that part of the world.

As I understand, the compact provision includes a tax section that states that any U.S. citizen who stays 183 days in those islands does not even have to file an income tax return to the United States.

Senator SYMMS. Aren't those other islands?

Mr. GUERRERO. Yes.

Senator SYMMS. But that's not true on Guam, so that puts you at a disadvantage on them also.

Mr. GUERRERO. Well, in Guam, at this point, any United States citizen staying in Guam doesn't pay any income tax in the United States, but pays income taxes in Guam. But we do have an income tax in Guam and, at this point, there are no income taxes in those other islands. What if they would enact their own income tax later on, or something else?

Senator SYMMS. Just as a point of interest on my part, has there ever been an attempt made by Guam's citizens to become another, like another county in California, or Oregon, or Washington, to tie in, or Hawaii, let's say, instead of trying to go for statehood, just

become another congressional district or something and try to get the ability to vote and be part of the State's jurisdiction?

Delegate BLAZ. You're getting warmer and warmer. Look at all those——

Mr. GUERRERO. I remember a discussion years ago, but it didn't even get to first base. People just abandoned it because of cultural differences perhaps and the fact that we would like to run our affairs in Guam as much as we could, too.

I think falling under Hawaii as a county would not give us the identity.

Senator SYMMS. What is it? About 2,000 miles from Hawaii?

Mr. GUERRERO. 4,000 miles.

Senator SYMMS. How far from Tokyo?

Mr. GUERRERO. 1,500 miles.

Senator SYMMS. And how far from Manila?

Mr. GUERRERO. About 1,500.

Senator SYMMS. How far from Kwajalein?

Mr. GUERRERO. Kwajalein I think is about another 1,000 to 1,200. About 1,200 miles.

Senator SYMMS. There's a lot of space out there, isn't there?

Mr. GUERRERO. It's a big area; from the Northern Marianas all the way up to the Marshall Islands encompasses about 3 million square miles of area, mostly water, of course.

Senator SYMMS. Well, one of my concerns is I talked to my brother about this and I have a brother at home that majored in political science and he runs our family orchard. I majored in horticulture and I'm here. [Laughter.]

But he always maintains we have made a terrible mistake in the Pacific, particularly with the Philippines, that we didn't get the Philippines in some kind of a much closer arrangement after having had two wars out there in this century, at the turn of the century and then the other one in World War II, that now we still have the problem and had we either made it a territorial statehood or something that the security would certainly be stronger at this point, and there wouldn't be any of these questions that are now coming up.

So I think you have, I would say as one Member of the Congress, that those of you from Guam do have a case and I think that Delegate Blaz makes it very well that, from a security standpoint of people living in the United States, we need that Pacific region to be friendly to us and not to end up being another base for the Soviet Navy in the Pacific.

I think there is a good reason why it would be in everybody's best interests to develop a more private sector activity out there to tie the United States and Guam closer together through commercial ties and the cultural thing and the security thing would come along with it.

Do you have any more questions of this panel before bringing the next panel up?

Delegate BLAZ. I have one more question, please, and that is, although this is not a political status hearing here and we certainly don't want to turn it into that, we cannot ignore the fact that the backdrop of all this discussion here is the fact that we are pursuing a commonwealth status.

Given the draft that we now have, do you see any inconsistency with what you have indicated you want for Guam vis-a-vis what is envisioned in the Commonwealth draft?

Ms. BAZA. Insofar as tax reform is concerned, the proposal which we have presented today is consistent with the Commonwealth Act, as are some of the other areas which will be discussed later on in areas of trade, tourism, and fisheries development.

Mr. GUERRERO. No, I don't see anything.

Senator SYMMS. Thank you very much.

The next panel we have is Mr. Henry Cruz, Mr. Howard Ladd, and Mr. Guerrero. Mr. Guerrero, you make it on two panels. You are a very, very distinguished citizen. But after flying this far, I think you deserve the opportunity.

Mr. Cruz, please go right ahead with your statement.

STATEMENT OF HENRY M. CRUZ, DIRECTOR, DEPARTMENT OF COMMERCE, TERRITORY OF GUAM, ON BEHALF OF HON. RICARDO J. BORDALLO, GOVERNOR

Mr. CRUZ. Mr. Chairman and members of the committee, my name is Henry M. Cruz, director of the Guam Department of Commerce. On behalf of the Governor and the people of Guam, may I express our appreciation for the opportunity to appear before you today to testify on the subject of opportunities for privatization in Guam.

Mr. Chairman and members of the subcommittee, Guam is undergoing a peculiar phase in its quest for progressive social and economic change. It appears that the territory is not following too far behind the positive trend in economic growth which has been experienced in the Western Pacific Basin and more particularly in many of the Pacific Asian Rim countries.

Part of the phenomenon can perhaps be attributed to the geographical proximity of the territory with respect to the Pacific Asian Rim which contains several of the world's fastest growing economies. Guam's unique location in the region significantly increases the opportunities for private sector expansion in the areas of trade, manufacturing, tourism, and services. Other factors which contribute to the territory's development posture is the expansion of United States defenses related functions of which Guam plays a major part.

Second, the mere existence of a Western-oriented and politically stable island economy in a part of the world that is known for extreme changes both in the social-economic and political sense provides a necessary degree of stability.

Last, Guam can play a key logistical role with respect to the movement and marketing of both United States and Asian goods. Described in a simple way, Guam can be an "East meets West" clearinghouse.

The factors that I have just generally touched upon point Guam's economy toward the certain direction of expanding opportunities in the private sector.

Governor Bordallo and his administration have always affiliated in a direct way growth in the private sector with the abolishment

of Government services which could be readily and perhaps more efficiently provided by private entrepreneurs.

Cases in point are numerous beginning with the long drawn out legal battle over privatizing the Guam public market which at one time was totally Government subsidized. I am pleased to inform the committee that this is no longer the case. Other privatization efforts by the Government of Guam under the direction of the executive branch includes the privatization of the vehicle inspection stations, animal quarantine services, governmentwide vehicle maintenance, security services and health insurance programs.

Currently, a list of other projects is being considered such as, cafeteria food services, garbage collections, telephone services, park maintenance, security, and lastly highway maintenance.

An ad hoc committee on privatization has been officially organized by the local government which is comprised of representatives from the executive and legislative branches and the private sector.

What could be done to undoubtedly strengthen the ad hoc committee's determination on the scope of privatization would be to include Federal Government representation in this body. The argument being of course that there are numerous functions undertaken by and within Federal installations which could be evaluated for privatization feasibility.

Given that the Government sectors, local and Federal, provide 44 percent of Guam's total employment, one could easily deduce that the Government sector is in fact large in Guam in comparison with national and State norms.

The Government of Guam believes it is desirable to reapportion employment to nongovernment sectors. An approach to this lies in the pursuit of attainable privatization. It must be emphasized that any successful attempt toward privatization simultaneously supports the fundamental policy of the Governor and local leaders to diversify Guam's economic base.

It must be emphasized that the combined local and Federal opportunities provides significant incentive to Guam's private sector. Using the simple criterion of cost-benefit, when compared with existing costs and benefits, continuity of service or services and the efficiency of providing such services, I am confident that the findings of any feasibility assessment would indicate that privatization is the route to take.

Moreover, the realization of new projects transitioned from local and Federal Governments undertaking to private entrepreneurship would undoubtedly give Guam's private sector an economic thrust unparalleled in the history of the territory's development.

In closing, gentlemen, Guam can no longer continue to rely on local government and the Federal Government as the major employers. The private sector must and should be a viable and flourishing sector for employment opportunities for Guam residents.

This goal, however, can only be achieved by the Government of Guam, the Federal Government and the private sector walking hand in hand to fulfill this goal. An inextricable component to privatization's success lies in the implementation of fair and appropriate Federal laws, rules, and regulations addressed in the draft Guam Commonwealth Act, that will unhandcuff our destiny so

that we can become America's shining example of democracy and the free market in action in the Western Pacific.

Thank you for allowing me to appear before this distinguished committee today, Mr. Chairman.

Senator SYMMS. Thank you for a very excellent statement, Mr. Cruz.

Mr. Howard Ladd, the senior vice president, Triad America Services Corp.

STATEMENT OF HOWARD D. LADD, SENIOR VICE PRESIDENT, TRIAD AMERICA SERVICES CORP.

Mr. LADD. Good morning, Mr. Chairman. I would like to express my appreciation to you and the Joint Economic Committee for holding these hearings on the strategic business role Guam can play in America's economic challenge in Asia. I believe Guam can play an important strategic role in improving America's trade presence in Asia. My comments this morning will be directed toward how I think this can be accomplished through the strengthening of Guam's local private sector.

Representing Triad America Services Corp., we are one of a series of companies owned by Triad America, who are presently in the business of hospitality and resort development, oil refinery operations, real estate and infrastructure development, and the services activity which is primarily operations and maintenance.

Our experience leads us to agree with President Reagan's statements that greater participation from the private sector and contracting generates numerous benefits.

It would appear that the keynote to the President's private sector initiative program is the formation of strong partnerships between the private sector and the government with local initiative as the key to success. The President has stated that the leadership of local officials, the initiative of the men and women in the business community and most important, the unsurpassed talents of the American worker can produce the maximum benefit for every dollar we spend.

In no place is privatization more appropriate than in the U.S.-flag territories. Historically, the flag territories have relied upon large government infrastructure to meet the needs and requirements of growing populations. The business communities have been, by and large, small and fragile, often lacking necessary working capital, management skills, and technical ~~ex~~pertise.

Recently, this has been changing, and the flag territories business sectors have been gaining strength and momentum. Working capital has been developing and technical expertise is emerging. This marked improvement in capability has primarily been self-generated with only modest assistance provided by the Territorial Governments.

In mid-1984, the Department of Interior, under the leadership of Richard Montoya, Assistant Secretary for Territorial and International Affairs, launched an impressive effort toward territorial privatization. The U.S.-flag territories in the Pacific, namely, American Samoa, Guam, and the Commonwealth of the Northern Marianas, received a visit from a large delegation of Government offi-

cials and mainland businessmen. The delegation spent nearly 3 weeks in the three territories, delivering the privatization message, conducting panel workshops, and meeting privately with local businessmen.

Inertia had been overcome. And Secretary Montoya got the ball rolling and there were all the elements present that make for progress. There was a lot of controversy, some enthusiasm, a lot of motivation, and significant concern.

Where motivation is present and assistance is available, positive actions can begin to occur. In American Somoa, the local government embraced the merits of privatization. The Department of Interior pitched in with some guidance and assistance, while the Territorial Government remained receptive and cooperative.

Results—two government functions were privatized; one large, one small. The larger of the two projects—the marine railway—was spun off to an off-island firm, new capital was applied, facility improvements are being made, and operational capability is being enhanced. The results are positive, as the tuna fishing fleet now can receive or will soon receive maintenance support locally, as opposed to long voyages back to mainland maintenance centers. A smaller project—a dairy operation—is now in the hands of a local operator.

American Samoa is relatively small when compared with Guam. Land mass, population size, services, complexity, the presence of military installations, all combine to make Guam a more challenging opportunity for privatization. Privatization, however, should occur for the right reasons, not merely for the sake of transferring responsibilities from one sector to the other. The Government should divest itself of only those functions that can be performed by the private sector more efficiently and at a lower cost.

What are the logical candidates for privatization? Which functions are not appropriate for Government and which can be best handled by the private sector, and what is the private sector's capability? Are there private sector entities capable of assuming the responsibility to deliver services currently being provided by the Government? There is no easy yes or no answer to these questions. The answers will emerge only after some very logical steps are taken.

We subscribe to certain steps that must be taken if privatization is to have a meaning and become a reality.

Step one; there must be organization. A brokerage device must be created to bring the Government and the private sector together to plan and effect a smooth transition from Government to the private sector. An agenda for deprivatization must be developed. A competitive process must be designed and applied to insure a fair and equitable distribution of those functions the Government is to divest itself of.

A partnership must be formed, the Government must want to divest and the private sector must be worthy of the opportunity. Privatization should primarily benefit local existing businesses. Only in those cases where there is not existing capacity should outside businesses be brought in. Above all, dialog must center upon job training and placement for those Government workers dis-

placed by privatization. It is essential that these workers be absorbed by the private sector.

Step two would be an assessment of the current Government operations. That must be conducted. A comprehensive, objective analysis of each functional area within Government, for example, public works, utilities, transportation, et cetera, must be performed. Each area must be assessed as to efficiency, cost-effectiveness, and appropriateness.

Is the Government doing a good job? Could the Government do a better job? Is this a job the Government should even be doing? The final assessment will point out those areas the Government should and must retain. And this assessment should also contain recommendations for improvement and strengthening of Government procedures.

Step three is an identification of candidates for privatization. We have just heard of a long list. Based on the assessment done in step two, an identification can be made of those functional areas where the Government is one, not performing in an optimum manner and/or two, those areas that are inappropriate for the Government to be doing, whether or not it is currently doing a good job or not.

Step four is a private sector capability assessment. As an adjunct to step two and three, the private sector must be analyzed and appraised as to capability. Those businesses in the private sector which could serve as a replacement provider must be identified. Relative strengths and weaknesses must be appraised and the depth and extent of the private sector weaknesses must be understood and remedial prescriptions devised to overcome and eliminate those weaknesses.

New capital input, through aggressive financing by conventional financial institutions or venture capital sources will need to be found. Management enhancement programs will need to be developed. Joint venture partners must be found. These are some of the ingredients of a remedial action prescription program.

Finally, step five, there must be continuity and support. Finally, the Government must be willing to improve its contract, management and monitoring capacities. A team of contrast specialists will need to be developed. Dialog between the Government and representatives of the business community that was initiated in step one must be continued and broadened.

Economic development loan funds must be identified and a trustworthy system of distribution and administration of those funds must be created. The Government should play a key role in attracting outside investment capital; the Government should be instrumental in arranging and assisting in the formation of joint ventures between local companies and outside companies teamed with the local companies. This assistance will be necessary to insure capital and management expertise strength. The Department of Interior can be instrumental here in maintaining momentum through advice, guidance, and technical assistance.

A privatization program in Guam must be a team effort. The steps I have outlined here are no different than the elements contained in corporate business and strategic planning. They are an economic development strategy which results in business development.

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Medical planning is not performed by welders. We strongly urge you to encourage business involvement in the privatization planning process. Successful businessmen can help address those elements that only they are qualified to address. Businessmen often are not skilled in government matters, however, so it is just as important that you get good government intellect involved.

Envision, if you will, a roundtable of expertise consisting of government, Territorial, and Federal; business, large and small, local and from the mainland; technical specialists knowledgeable in public works, utilities, transportation, et cetera. Give such a roundtable a charter, develop a five-step prescription and produce a workable and doable model of privatization. Do it with and for Guam and you will have greatly enhanced Guam's ability to play its strategic role in helping America meet the economic challenge in Asia.

Guam could become a magnet for American firms doing business in Asia. A strong local private sector is the greatest investment Guam can have. It could attract more U.S. firms, more regional headquarters, assembly, warehousing, and distribution activities. In the long run, if the American political system already in place in Guam is to be sustained, an American-oriented economy must be strengthened. Guam can be a demonstrable model of success that can be applied anywhere privatization is appropriate. Thank you.

[The prepared statement of Mr. Ladd follows:]

PREPARED STATEMENT OF HOWARD D. LADD

Good morning Mr. Chairman. My name is Howard Ladd. I would like to express my appreciation to you and the Joint Economic Committee for holding these hearings on Guam's strategic business role in America's economic challenge in Asia. I believe Guam can play an important strategic role in improving America's balance of trade in Asia. My comments this morning will be directed towards how this can be accomplished through the strengthening of Guam's local private sector.

First, let me introduce myself and my company. I am Senior Vice President of Triad America Services Corporation, or TASC. TASC is a multi-faceted services organization capable of providing logistic systems support anywhere in the world. TASC provides such support services as facility management, operation and maintenance, telecommunications, industrial security, procurement and supply and management consulting. Collectively, TASC's senior management have had over 50 years experience in Micronesia. A subtantial amount of this experience has been in partnership with governments for the provision of goods and services through privatization.

Our experience leads us to agree with President Reagan's statements that greater participation from the private sector in government contracting generates numerous benefits. To mention but two, it:

- strengthens both traditional industries and those utilizing the latest breakthroughs in high technology;
- creates new jobs which significantly expand the tax base of federal, state and local governments.

The key note to the President's Private Sector Initiative Program is the formation of strong partnerships between the private sector and the government with local initiative as the key to success. The President has stated, "the leadership of local officials, the initiative of the men and women in the business community, and, most important, the unsurpassed talents of the American worker can produce the maximum benefit for every . . . dollar we spend."

The concept embedded in the President's Private Sector Initiative Program should not be confined to the U.S. federal government. We believe this concept applies equally to state, county, municipal and, of course, territorial governments as well. In some quarters the initiative is called privatization, while in others contracting out is used to describe the concept.

It is no longer a matter of if; it is more a question of at what speed and pace will the private sector form sound working relationships in partnership with government entities to begin performing work more suitable to, and for, the private sector.

In no place is privatization more appropriate than in the U.S. Flag Territories. Historically, the Flag Territories have relied upon large government infrastructures to meet the needs and requirements of its growing populations. The business communities have been small and fragile often lacking in necessary working capital, management skills and technical expertise. Recently, this has been changing and the Flag Territories' business sectors have been gaining strength and momentum, working capital has been developing, and technical expertise is emerging. This marked improvement in capability has primarily been self-generated with only modest assistance provided by the territorial governments.

In mid-1984, the Department of Interior under the leadership of Richard Montoya, Assistant Secretary for Territorial and International Affairs, launched an impressive effort towards territorial privatization. The U.S. Flag Territories in the Pacific, namely American Samoa, Guam and the Commonwealth of the Northern Marianas, received a visit from a large delegation of government officials and mainland businessmen. The delegation spent nearly three weeks in the three territories delivering the privatization message, conducting panel workshops, and meeting privately with local businessmen. Inertia had been overcome. Secretary Montoya got the ball rolling and there were all the elements present that make for progress: controversy, enthusiasm, motivation and concern.

Where motivation is present and assistance is available, positive actions can begin to occur. In American Samoa, the local government embraced the merits of privatization. The Department of Interior pitched in with some guidance and assistance while the territorial government remained receptive and cooperative. Results: two government functions were privatized; one large, one small. The larger of the two projects -- the marine railway -- was spun off to an off-island firm, new capital was applied, facility improvements were made and operational capability enhanced. The results are postive as the tuna fishing fleet can now receive maintenance support locally as opposed to long voyages back to mainland maintenance centers. The smaller project -- a dairy operation -- is now in the hands of a local operator.

American Samoa is relatively small when compared with Guam. Land mass, population size, services complexity, the presence of military installations all combine to make Guam a more challenging opportunity for privatization. Privatization, however, should occur for the right reasons, not merely for the sake of transferring responsibilities from one sector to the other. The government should divest itself of only those functions that can be performed by the private sector more efficiently and at a lower cost. What are the logical candidates for privatization? Which functions are not appropriate for government and which can best be handled by the private sector? What is

the private sector's capability? Are there private sector entities capable of assuming the responsibility to deliver services currently being provided by government? There is no easy yes or no answers to these questions. The answers will emerge only after some logical steps are taken.

We subscribe to certain steps that must be taken if privatization is to have meaning and become a reality.

Step I. Organization

A device must be created to bring the government and the private sector together to plan and effect a smooth transition from government to the private sector. An agenda for privatization must be developed. A competitive process must be designed and applied to ensure a fair and equitable distribution of those functions the government is to divest itself of. A partnership must be formed, the government must want to divest and the private sector must be worthy of the opportunity. Privatization should primarily benefit local, existing businesses, only in those cases where there is not existing capacity should outside businesses be brought in. Above all, dialogues must center upon job training and placement for those government workers displaced by privatization. It is essential that these workers be absorbed by the private sector.

Step II. Assessment of Current Government Operations

A comprehensive, objective analysis of each functional area within government, e.g., public works, utilities, transportation, etc., must be performed. Each area must be assessed as to efficiency, cost effectiveness, and appropriateness. Is the government doing a good job? Could the government do a better job? Is this a job the government should even be doing? The final assessment will point out those areas the government should and must retain. This assessment should also contain recommendations for improvement and strengthening of government procedures.

Step III. Identification of Candidates for Privatization

Based on the assessment done in Step II, an identification can be made of those functional areas where the government is (1) not performing in an optimum manner, and/or (2) those areas that are inappropriate for the government to be doing, whether or not it is currently doing them well.

Step IV. Private Sector Capability Assessment

As an adjunct to Steps II and III, the private sector must be analyzed and appraised as to capability. Those elements in the private sector that

could serve as a replacement provider must be identified. Relative strengths and weaknesses must be appraised. The depth and extent of the private sector weaknesses must be understood and remedial prescriptions devised to overcome and eliminate those weaknesses.

New capital input, through aggressive financing by conventional financial institutions or venture capital sources will need to be found. Management enhancement programs will need to be developed. Joint venture partners found. These are some of the ingredients of a remedial action prescription program.

Step V. Continuity and Support

Finally, the government must be willing to improve its contract management and monitoring capacities. A team of contract specialists will need to be developed. The dialogue between the government and representatives of the business community that was initiated in Step I must be continued and broadened. Economic development loan funds must be identified and a trustworthy system of distribution and administration of those funds must be created. The government should play a key role in attracting outside investment capital; the government should be instrumental in arranging and assisting in the formation of joint ventures between local companies and outside companies teamed with local companies. This assistance will be necessary to ensure capital and management expertise strength. The Department of Interior can be instrumental here in maintaining momentum through advice, guidance and technical assistance.

A privatization program in Guam must be a team effort. The steps I have outlined here are no different than the elements contained in corporation business and strategic planning. They are an economic development strategy which results in business development.

Medical planning is not performed by welders. We strongly urge you to encourage business involvement in the privatization planning process. Successful businessmen can help address those elements that only they are qualified to address. Businessmen often are not skilled in government matters, however. So it is just as important to get good government intellect involved.

Envision, if you will, a round table of expertise consisting of government: territorial and federal; business: large and small, local and from the mainland; technical specialists knowledgeable in public works, utilities, transportation, etc. Give such roundtable a charter: develop the Five Step Prescription and produce a workable and doable model of privatization. Do it with and for Guam, and you will have greatly enhanced Guam's ability to play its strategic role in helping America meet the economic challenge in Asia. Guam will become a magnet for American firms doing business in Asia. A strong local private sector is the greatest advertisement Guam can have. It will attract more U.S. firms. More regional headquarters, assembly, warehousing, and distribution activities. In the long run, if the American political system, already in place in Guam, is to be sustained, an American-oriented economy must be established. Guam can be a demonstrable model of success that can be applied anywhere privatization is appropriate.

Senator SYMMS. Thank's very much for an excellent statement and I am most interested in your remarks. I might just say we have held about six hearings on this subcommittee on the subject of privatization with respect to some of the findings of the Grace Commission, you know, approaching the entire question and focusing on some of those things which are done in a very expensive fashion, which might be done much more efficiently, more productively and, in many cases, provide better services for the constituencies that those public entities provide, and I think this might be an opportunity for us not only to do good in Guam but also be an example for what might be done elsewhere.

Mr. Jesus Leon Guerrero, Delegate Blaz tells me you are one of the most distinguished citizens in Guam, and I guess it must be true because you're on the panel twice this morning, so we'll hear from you again and we welcome you here again.

Mr. GURRERO. I don't know if it's because of my distinguished position that I happen to be on two panels or whether I'm a fill-in for anybody that's not here, you know, switching me around from one panel to the other.

Senator SYMMS. Go right ahead, please.

STATEMENT OF JESUS S. LEON GUERRERO, PRESIDENT AND CHAIRMAN OF THE BOARD, BANK OF GUAM

Mr. GUERRERO. Mr. Chairman, Delegate Blaz, members of the Joint Economic Committee, it is certainly an honor to be able to address the members of this esteemed committee. During my presentation, I shall be generally covering the various topics of discussion prepared by the Guam Chamber of Commerce. However, these particular topics and issues will be more thoroughly covered by the rest of the chamber delegation.

Therefore, I feel that the introductory portion of this presentation must conceivably include a brief but thorough history of the economic development of Guam throughout the years culminating in our present economic situation and political status. This will, consequently, enable the participants to completely understand the various periods of development and the actual purpose of this hearing.

The economy of Guam has undergone many changes since it was discovered in 1521 and it became a territory of Spain. Our people in the early days were self-supporting. They had all the skills necessary to supply all our people with the basic necessities of life. Food, clothing, and shelter were produced from the land. Distribution of goods was under a barter system. The population was approximately 25,000 inhabitants, ceded to the United States in 1898 under the treaty of Paris, which made us U.S. nationals.

The first banking system and the real circulation of money as the medium of exchange was established in 1915 by a proclamation signed by Governor Maxwell. The Bank of Guam, solely owned by the naval government, came into existence with an initial capital of $15,000. The economy remained basically agriculture, fishing, and government employment.

World War II brought Guam's development to a complete halt. The Bank of Guam was closed and yen was used as the medium of

exchange. The people had very little use for money since farming and fishing were our subsistence.

The end of World War II was the turning point in the development of Guam. Millions of dollars were poured into the island for reconstruction. The Bank of Guam was reestablished and subsequently sold to Bank of America in 1950. War claims were paid to the people in excess of $8 million. The military spent millions of dollars for defense and offensive military installations and Congress appropriated $6 million for the reconstruction of Guam's villages.

Prewar taxes were put back into effect and prewar merchants were put back in business through Government subsidies. Jobs were plentiful and salaries were good. Other developments followed until the enactment of the Guam Organic Act in 1950 which afforded U.S. citizenship to all Guam inhabitants. Income tax, Government expenditures and other forms of taxation became our major financing.

Our economy shifted from an agriculture to a monetary economy. The largest employers were the military and the Government of Guam. Dependence on a government economy was not ideal, so we began planning for an expansion to the private sector. We wanted to be as self-sustaining as possible. There were, of course, several inhibiting factors toward economic development during this period, such as, the requirement of a military security clearance before anyone could enter Guam, including U.S. citizens, inadequate infrastructure, lack of capital, lack of know-how, and the lack of natural resources. In essence, Guam was completely unknown in the world of commerce.

The economic base continued to be the military and the Federal Government until the huge typhoon; namely, typhoon Karen, devastated the island in 1962 and practically destroyed all World War II buildings. The road toward a massive rebuilding then commenced. The Federal Government provided approximately $50 million in loans and grants in the quest for the rebuilding and development of Guam. Home construction financed by FHA and other Federal programs became a big industry. Rebuilding centered on permanent infrastructure and more lasting endeavors.

Another monumental decision toward the road to development came in 1962 with the lifting of the Navy security clearance which afforded Guam with free travel access. Enter tourism—this inevitably led to the inaugural Pan American flight between Guam and Japan thereby opening up the tourism industry. The Guam Tourism Commission was established during this period which was the predecessor to the Guam Visitors Bureau. Today, Guam brings in approximately 350,000 tourists annually, representing an inflow of funds to Guam in the neighborhood of $200 million.

The Guam Economic Development Authority came to being as the catalyst for the economic development of Guam. This autonomous agency was empowered among other things, to borrow, to receive and develop Government land, to grant and/or guarantee loans, and to grant tax incentives. Over a 5-year period, GEDA brought in over $250,000,000 of capital to Guam.

Hotels began springing up which presently form what we have come to know as "Hotel Row" in Tumon Bay. Airlines began look-

ing to Guam as a possible profitable route, not necessarily as a final destination, but more so as a tie-in to Asia and the Micronesian Islands. Consequently, more and more tourist related facilities began to domicile on Guam as a result of this reawakening surge. Tourism became the biggest single industry for Guam.

We started electing our own Governor and were allowed a nonvoting delegate to represent our island in the U.S. House of Representatives.

The development of Guam took off from that point on and is continuously accelerating at an increasing pace up to the present. Of course, we had our own ups and downs as a result of various exogenous factors beyond our control, such as, the oil crunch and the economic recessions in the United States. Nevertheless, our gross island product rose to $600 million from $200 million during the last decade, excluding the military. Add the military economic base and we're talking of a gross island product of approximately $1 billion.

We have 15 banks and two savings and loans with a total deposit estimated at $450 million; off-shore deposits are about $200 million. The local government's annual revenue is approximately $175 million. On a per capita basis, I believe this revenue base is definitely strong considering the size and the population base of Guam. It's 220 square miles; population, 110,000 people.

Obviously, we have made substantial progress in our economic development over the period indicated above and our future is bright.

The reasons for such optimism is my projection of an increase in military activities, increase in tourism, increase in American and Asian businesses locating on Guam, and also the pending compacts of free association within Micronesia and Northern Mariana Islands which would provide an approximate capital injection principally for infrastructure development throughout the area of $2.5 billion for the next 15 years.

There are, of course, impediments and inhibiting factors which are not conducive for continued economic growth, such as, inhibiting Federal laws and regulations applicable to Guam. These issues will be discussed by other members of our delegation. They discourage growth in business and commerce from within and from without.

In my opinion—and this is my personal opinion—the most fundamental issue confronting us is the measure of a stable and permanent relationship with the United States. This is definitely a crucial issue as investors have indicated the lack of a permanent relationship with the United States will dampen future investments in Guam.

The current consideration is that of a commonwealth status for the territory. The people of Guam voted for a commonwealth form of government which our leaders are presently pursuing and which will culminate in a plebesite shortly, as well as be the topic for discussion in the Federal level of government.

In my opinion, however—and this again is my personal opinion—Commonwealth is obsolete and behind times. As presently drafted, it does not have much to offer which is substantially different from our present status under the Organic Act. Commonwealth is still a

transitional and temporary form of government which would not be in the best interest of the people of the territory of Guam and certainly would not assure us a continued and viable economy.

Therefore, it is my view that we have reached the stage of our development where we should opt for "statehood" and be a complete and integral part of the American family. Any transitional or temporary form of government without full voting representation in the national level would fall short of the confidence in government require for our future growth.

For 87 years we have been part of the United States. For 36 years we have been loyal and dedicated U.S. citizens. Many of our young men died in wars for the defense of our country. Our people suffered heavily in occupational ravages and atrocities in the Second World War while never for a moment losing our confidence in the return of the Americans. For 36 years we have operated, managed, and financed our government through our own taxes. Granted the United States has provided us with millions of dollars in subsidy and loans but so as every other State and city in the Nation. The Guam story is a successful one and we are proud of our achievement. I hope the U.S. Government and the American people are equally proud of us.

Guam is the only real estate owned by the United States in the Asian-Pacific region. Billions of dollars have been involved to make Guam the frontline defense of our country. Guam's military importance becomes more acute because of the strong presence of Soviet military power in the region. In fact, from information provided, they outstrip us in military strength in certain areas.

With all the troubles we are experiencing in other Asian countries, Guam is the most dependable fall back for the defense of our country. Additionally, because over 50 percent of the world's population are located in the region, economic and business opportunities are greater here than in any part of the world and Guam can play a vital role as a staging point for U.S. business interests.

It is therefore to our mutual interest that a permanent relationship be considered within a reasonable period of time. In the meantime, amendments to the Organic Act or other U.S. laws eliminating other economic impediments should be considered as early as possible. Our immediate goal is to continue to expand the private sector and be less dependent on Government assistance. Guam's development is relatively no different from Hawaii. Guam today is where Hawaii was when it became a State in 1959. Guam as a State will grow as Hawaii did. Thank you.

Senator SYMMS. Thank you very much for a very excellent statement. You mentioned that there are 350,000 tourists annually visiting Guam. Are most of those from Japan?

Mr. GUERRERO. That's correct.

Senator SYMMS. So, in other words, for those of us here in the Congress that are concerned about the trade imbalance, every time a Japanese tourist comes to Guam, then we are selling them services and helping on that trade imbalance?

Mr. GUERRERO. That's correct.

Senator SYMMS. And are those hotels that you mentioned mostly owned by Guamians, American hotel companies, Japanese? Who owns them?

Mr. GUERRERO. Most of the hotels at this time are owned by Japanese, but there are some American hotels, like the Hilton, Pacific Island Corp., but mostly Japanese.

Senator SYMMS. But they do contribute of course to the property tax base.

Mr. GUERRERO. Yes. I think the figure I mentioned was for Guam's share we bring in approximately $200 million a year.

Senator SYMMS. Well, the Finance Committee is concerned, as I mentioned at the outset, about taxation in the Pacific region. And there are some features of the Tax Code in the Micronesian Compact that have been mentioned here at this table.

You mentioned, I think at the last panel and others have. I think some of you might be pleased to know that Chairman Packwood has been very concerned about that and is very interested in that and of course, as I mentioned at the outset, that's one of the reasons we are having this hearing, so this information can become more fully understood by more of us in the Congress.

I do want to ask some questions of each of the witnesses and I guess since I have Mr. Guerrero here, I'll just go ahead with you as former chairman of the Bank of Guam—chairman of the board of the Guam Economic Development Authority, excuse me—do you think Congress should allow or encourage further type similar investment incentive programs for Guam?

Mr. GUERRERO. The Guam Economic Development Authority programs?

Senator SYMMS. Yes. Do you think we should continue to pursue that, or should we pursue a different avenue for investment?

Mr. GUERRERO. I think we should continue to pursue it because it has been successful in the past and I think it would continue to bring capital into the territory of Guam.

Senator SYMMS. Mr. Cruz or Mr. Ladd, do you have any comments on that?

Mr. LADD. I don't think I'm qualified.

Senator SYMMS. OK.

Mr. Guerrero, as a banker, you already mentioned there should be some changes in Federal banking laws, so the local bank in Guam would be treated equally with the branch banks that come in.

But are there any other further changes which you would—are there any banking laws that you would further encourage changes in to encourage private investments in Guam, if any?

Mr. GUERRERO. I cannot think of anything at the moment. Guam really is under the U.S. banking laws at this point. I mean, the National Bank Act is applicable to the territory of Guam and it has worked very well, as far as the banking industry is concerned, and I know, at the time the Commonwealth was being drafted, the question came up and the banking community got together, and we did not come up with any specific area at this point that would have to be changed, as far as the tax is concerned, other than what I had mentioned before.

Senator SYMMS. Mr. Guerrero, I know that you are the Presidentially appointed adviser to the Secretary of the Army, but what impact do you see of the U.S. military having on Guam's future economic development?

Mr. GUERRERO. I think the military will continue to have a positive impact in the future development of Guam. Guam and the military have a very close relationship, as far as I can remember, since the U.S. took over Guam from Spain back in 1898, and it has been administered by the U.S. military since that time, and we have a very close relationship with the military, and I think that relationship would continue, and I think that relationship should be fostered.

One of the things that we have been very happy about is that Guam is one area where the U.S. military presence has never been questioned by the population. We have never demonstrated against the U.S. military, because of the years of relationship and the importance of the military to us in the territory of Guam.

Senator SYMMS. Were you there when the 3d Marine Division and the 77th Infantry Division liberated Guam?

Mr. GUERRERO. Yes, I was there too. I was there with Ben Blaz, but he was with another division. I was with another one. We didn't cross paths, but we were both in Guam.

Senator SYMMS. That must have been a rather difficult time with all that activity going on.

Mr. GUERRERO. It was a difficult time, but it had its happy moments at times.

Senator SYMMS. Mr. Ladd, you talk about privatization. What should Congress do to make Guam a more attractive location for companies that are pursuing privatization of traditional Government services?

Mr. LADD. Well, I think Mr. Sanchez indicated some incentives should be considered for those companies willing to come and bring jobs, create jobs and establish residence and domicile themselves in Guam. We have had a long, long partnership with Government. We realize that it has to be a softened environment, you know, to provide incentives and to attract risk capital.

At this particular point, in many instances, Guam represents an opportunity for aggressive capital to come to work, unless there's a total atmosphere created that will allow more conservative approaches and more conservative companies to come in and make a more consistent investment and residence. It is only 3 hours from the markets. There are——

Senator SYMMS. How many hours?

Mr. LADD. I understand it is 3 hours to the bulk of the Asian market. One might consider a reverse headnote 3a approach here against some of those Japanese interests that are running hotels to talk to their Government about some United States companies that might be able to domicile themselves in Guam in exchange for getting their product in by way of port release or tariffs.

Senator SYMMS. Now your business is in providing some of the services that government might provide; is that correct?

Mr. LADD. Yes.

Senator SYMMS. Is there any problem there of—what kind of regulation is necessary, if any, to be sure that some operators wouldn't, at some time, you know, that they meet a performance cost, because it would be kind of a small monopoly in a way.

Is there any problem with that, that has come up?

Mr. LADD. No; if I understand your question, I think companies like ourselves that are primarily operations and service companies could do a great deal of—make a great contribution to Guam by participating with some of the local businesses.

Senator SYMMS. Specifically, what is it that you think private companies could do more efficiently and provide better service for the people of Guam than the Government is now doing?

Mr. LADD. Well, I participated with Secretary Montoya on his tour through the flag territories last year, and it was very obvious there were some things that jumped right out. Now we hear there is some progress being made, but we saw the Department of Transportation domiciled, I think, within the public works yard that had approximately 100 schoolbuses down—redlined for lack of repair, spare parts, or whatever.

If I remember that location, it is right within an industrial park and surrounding that area were vehicle and automotive maintenance companies—small, little companies. I didn't see any schoolbuses being repaired. So it was almost a lock out: We can't fix them, we're not going to fix them, but we're not letting them out of the fence for you to fix them.

I think there's a new move underway here, and I have recently learned that Secretary Montoya and the Governors of the flag territories have put some initiatives together that sound like they are going to begin addressing it.

I have a letter from Governor Bordallo, acknowledging that we identified some 17 areas of possible privatization opportunities, which I have just learned a number of them are being approached.

So I think there is some progress. But I think the government of Guam—as well as the other territories—has to make a decision, are they to be an employer or are they to be a provider of services that the private sector cannot provide. If the decision is that they will continue to be a major prime employer, then privatization doesn't have a chance.

If privatization is to take place, there must be this bridge. You've got to find a way to handle that displaced employee—that government employee—but you've got to stop putting people into the Government pipeline with so many cents added for benefits, et cetera, and have, outside the Government compound, more businesses struggling and striving to get a piece of the action.

We would strongly encourage the military to increase their contracting out activities there. We understand sometime ago, there was, out of concern for displaced Government employees—Federal Government employees—a moratorium on further contracting out. The Navy had indicated during that tour that they would love to contract out more, were it not for this moratorium.

If that moratorium is no longer in existence, military ought to be popping a lot of the stuff out in the small business set asides.

Senator SYMMS. OK. Thank you very much.

One kind of a general question, and I'll start with you, Mr. Cruz. If Guam were allowed to develop its potential, do you believe it would—it could become a net exporter rather than an importer of goods and services?

Mr. CRUZ. Right now, Mr. Chairman, there is a great imbalance of import/export figures. Guam is primarily, at this point an im-

porting economy, and in comparison, we import 90 percent of our commodities and, roughly speaking, 10 percent of that is what we show as an export.

Senator SYMMS. And what is the major impediment to development, so you could become at least a balanced trader, if not a net exporter? What is the greatest opportunity for expansion? I should put it that way. Any then what should the Federal Government be doing to assist you in that development?

Mr. CRUZ. I believe the answer would be opening up of markets and allowing an ease of movement of commodities from Guam to the U.S. mainland. We would also need assistance on our behalf with our Asian trade partners, insofar as also allowing the commodities produced or transformed in some way to reach the Asian market.

Senator SYMMS. So is it lack of capital? Is it a lack of infrastructure? Is it Federal laws or lack of market? Are you saying, really, it is a lack of a market?

Mr. CRUZ. Well, it is the overbearing trade relations that both the United States and the Asian economies, and we try and fit in the picture, and hopefully, with the avenues through regulatory revisions, it could allow us to tap both the Western market, as well as the Asian market, in a more efficient way.

Senator SYMMS. Mr. Guerrero, you act like you want to comment on that. Do you wish to comment on that?

Mr. GUERRERO. The biggest problem about developing some kind of manufacturing industry or something like that in Guam is the population base. We don't have the population base as a market, so if we get into any heavy light industry or manufacturing, it would have to develop—we would have to develop a market someplace else, and the United States is the logical market for us. And this is what we have been trying to develop for years. But every now and then, we get knocked down by a transient policy or regulation—headnote 3a, for example.

I know that at least two garment manufacturing companies in Guam have gone into bankruptcy because of some modification or some misunderstanding in the application of headnote 3a.

Senator SYMMS. Which law?

Mr. GUERRERO. Headnote 3a.

Senator SYMMS. Can you say that again? I'm sorry. I'm having trouble.

Mr. GUERRERO. Headnote 3a, the general provision on tariffs, which provides that products—a certain portion of the products manufactured in Guam to get into the United States free of duty and quota. I remember when I was still the chairman of the Guam Economic Development Authority, we had over 10 watch manufacturing companies or assembly companies in Guam, employing over 1,000 women, and that went on for a number of years.

But then all of a sudden the U.S. Congress came in and put a quota of the units of watches that can enter the United States from Guam, killing the entire industry completely, except one, I think, is still in operation.

Senator SYMMS. Let me ask you this question. This is the kind of question we're very interested in in the Senate Finance Committee. It's one of the reasons why we have you here today. On some of the

other island territories—American Samoa, Kwajalein, the Virgin Islands—is there a definite disadvantage—we passed a Caribbean Basin Initiative last year. Has that worked directly negative against Guam?

Mr. GUERRERO. Not that I can see at this point, but I think we should have the same type of initiative.

Senator SYMMS. That's what I'm getting at. Is the potential there for a disadvantage that could work against your economic development in Guam? Have we done something here that needs to be fixed and the Tax Code is what I'm saying? Mr. Cruz?

Mr. CRUZ. Mr. Chairman, I believe the Caribbean Basin Initiative also makes allowances for possessions such as Guam to take advantage of those concessions. It does include Guam as a qualifying location.

Senator SYMMS. Congressman Blaz.

Delegate BLAZ. I just can't let that comment on the statehood go by without asking you a question, Mr. Guerrero. As you know, last year there was a referendum and the people of Guam by an overwhelming vote——

Mr. GUERRERO. 1982, Congressman Blaz.

Delegate BLAZ [continuing]. Opted for a commonwealth and in the meantime the Commission on Self-Determination has been very actively drafting the document for such a political status with the United States.

Now here you come and you tell us all the good things about statehood and obviously you feel very strongly about it. Are you suggesting that we ought to regroup and go back or are you just making a comment for the record that you do not agree with what the majority of the people of Guam have opted for?

Mr. GUERRERO. I understand it's a difficult situation because the people of Guam in 1982 have voted for commonwealth. If you remember correctly, at that time, when we voted for commonwealth, statehood was also on the ballot and we had two plebiscites, if I remember correctly, on the same issue. The first one was around 1978 and I think statehood in 1978 got only about 5 percent.

In 1982 it went 20–25 percent, so you can see an interest in the statehood just during the 4-year period that took place back in those days.

Now, as far as the law that was enacted by the Guam Legislature, it mandates the Commission on Self-Determination to come up with a draft for a commonwealth. But the way I am looking at it, I know that was the decision of the people and I know we're pursuing that area. But that does not exclude any other possibilities. We feel it is better at this point to pursue something else that you continue on with commonwealth.

It's a difficult question. I don't know how you got around it. I'm just merely expressing what I feel about it and I think that commonwealth is not really what we need at this point. I think at this point what we have to do is to go after statehood. And I know it's not easy. I know it's going to take time. People are going to ridicule it; people are going to laugh at it. That was how Hawaii started back in the early fifties.

Nobody ever thought that Hawaii would ever become a State, until, you know, one day in 1959, they got it. And there's no differ-

ence, like I said, between Hawaii and Guam. There's no difference. Distance is the only difference, and I think Guam is ready at this point to start pursuing it, at least, you know. How you go around the law I don't know, but if you go with a plebiscite today I will bet you—and incidentally back in those days the people were being discouraged not to vote for statehood because it's impossible, it's an impossibility, forget it, you know, it's too far away from us, we'll never get there.

That's what was going around in the community. So vote for the next thing that's possible—commonwealth. That's how the people voted for commonwealth. But, if you go on a plebiscite today, I bet you that commonwealth—I mean statehood would lead the number of votes.

Delegate BLAZ. I'm assuming, sir, that your views are the personal views of the chairman of the board and not the chamber of commerce?

Mr. GUERRERO. That is my personal view as I reemphasized that a number of times when I was making my statement. But it's very, very sincere feeling, a sincere expression on my part.

Senator SYMMS. Well, thank you very much, all of the witnesses that came so far, and I know this afternoon this hearing is going to continue on and we are holding these hearings as I said at the outset, as a request from Delegate Blaz, who represents Guam so ably here in Congress, and he brought to our attention—to my attention particularly—some of these issues, and I think a lot of you have answered a lot of questions that have developed I think for our record. Some good thoughts.

I don't know whether we have all of the answers now, but I don't think we have to have all of them. We have to see what the problem is and if we can understand the problem, then I think in some of the territories, economic development in the territories, which is a laudable goal for all of us, we can hopefully move forward and who knows what the future holds? You may certainly end up being correct. I don't know what the future holds or how Congress will look upon that at a certain time in the future, but I do know that it's in the best interest of all citizens of the United States, including those on Guam, to have a very close tie and to have a very strong and viable economy.

I think if there's a possibility there that you could make a contribution on the trade balance by providing services to the Pacific rim, to provide a tourist mecca or some other kinds of highly trained and skilled people that can go do certain service jobs or manufacture things, that that's in all our best interests. And so I will see that this information is presented at the proper time to the chairman of the Finance Committee, who has already been looking at the entire Micronesian Compact and is in the process of trying to make some corrections, so I welcome your input on that, too, at any future date.

Congressman, if you have no further comments we will stand in recess until 2 p.m., this afternoon, and then will meet in room 2203, Rayburn House Office Building. The Subcommittee on Trade, Productivity, and Economic Growth will reconvene in room 2203, Rayburn House Office Building.

And so do you have any closing comment?

Delegate BLAZ. I just want to say, Mr. Chairman, I want to thank you very much and Senator D'Amato, who was here earlier, and Senator Mattingly, for holding this. Being a Member, I am fully aware of the difficulties to take 2 hours of your time from a full agenda here in the Congress so soon after the recess, and I just can't thank you enough for holding this hearing. This is the first time we have had this opportunity. We now have a public record in the Halls of Congress, and we can work on that.

May I remind you all that you have an invitation to the luncheon that commences in about 7½ minutes in room 2168, Rayburn, the Gold Room. We are heading that way if you will just follow us. Mo Udall is our speaker.

Senator SYMMS. I might say, Congressman, that I had the privilege to work on the House Interior Committee when Mo was chairman and you couldn't have a more entertaining and energetic speaker, and please extend my very best wishes to the chairman. He will be missed by many of us in the Congress, though we may be sometimes different on certain issues, but we certainly never differed in the view that he is truly one of the great Members of the House and is an excellent representative for his State and constituency.

So the subcommittee is adjourned.

[Whereupon, at 12:05 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. RICARDO J. BORDALLO TO ADDITIONAL WRITTEN QUESTIONS POSED BY SENATOR MATTINGLY

RICARDO J. BORDALLO
Governor

EDWARD D. REYES
Lieutenant Governor

OFFICE OF THE GOVERNOR OF GUAM
WASHINGTON LIAISON OFFICE

BERNICE CARBULLIDO
Director

JESSE P.M. SANTOS
Deputy Director

October 07, 1985

MR. JOE COBB
Room 359
HOB Annex 2
Washington, D.C. 20515

Dear Mr. Cobb:

The following are the Government of Guam's responses to the questions posed by Senator Mack Mattingly.

Should you have any questions, we are at your service.

Sincerely,

JESSE P.M. SANTOS

Enclosures.

1984-1985 TEXTILE HIGHLIGHTS: GUAM

The following is a listing of garment firms that have reviewed the possibility of locating their textile manufacturing operations in Guam:

1. Inter Asia Garment Corporation, Philippines
2. Cosmopolitan Enterprises, Hongkong
3. Dominic Corporation, Taiwan
4. Taiwan Eugene Merchandise International, Taiwan
5. Mansdar Fashions, Inc., Philippines
6. Tak Sing Alliance Limited, Hongkong
7. See Sun Trading, Ltd., New York
8. Bonanza Industries, Ltd., Hongkong
10. Wong's Handicraft Co., Hongkong
11. Gloria Weaving and Knitting Factory, Hongkong
12. Bagutta Garment Limited, Hongkong
13. United Management Corporation, Guam
14. Fascho, Manufacturer and Trading, Guam
15. Tweeds Gentlemen's Togs, U.S.
16. Allied Stores International, Inc., U.S.

SUMMARY

A total of 16 garment firms have expressed strong interest in establishing a garment plant on Guam during the period 1984-1985.

The Island's only textile firm is a pioneering entity, currently employing 250-275 garment workers, with plans to implement substantial expansion projects: the first phase would require an additional 75-100 garment workers; the second phase involves a pilot program designed to manufacture other lines of apparel items, requiring an additional 100 garment workers. In terms of employment generation, a total of 500 garment workers would be required. Also, these expansion phases will require that an additional 111,000 sq. ft. of factory space be added to the current plant size of 40,000 sq. ft. Further, equipment investment and plant fixtures will also be needed. Such investment considerations afford the opportunity for Guam to develop and utilize local resources to support an industry that can properly and independently operate of its own accord. This type of industry would lend positive benefits to Guam's fledgling economy.

There is presently a proposal for another garment manufacturer to set up business in Guam, over a five year period, that will result in some 500 jobs for local people. The projection is that the company will generate $220M by the end of the fifth year with an annual payroll of $4.7M.

IMPACT SUMMARY

	CURRENT	POSSIBLE
PRODUCTION:		
Yearly Level	125,000/ Dz.	1,890,440/ Dz.
Value:	$84.00/ Dz.	$117.30/ Dz.
Yearly Sales:	$10.4M	$250M
Employment:	250-275(Actual)	250-2650 1/
Average Hourly Rate:	$4.75/Hour	
Yearly Payroll:	$2.47M-$2.7M	$2.47M-$26.2M
Tax Revenue: (Personal)	$300-$344K Yr.	$344K-$3.3M Yr.
Tax Revenue: (Corporate)	$250,000 Yr.	$5.1M Est.
EMPLOYMENT PERCENTAGE		
Manufacturing Sector	: 22 Percent	
Private Sector	: 1.3 Percent	

1/ 250-2650 possible employment is based on projected figures of 150 employees per company for 16 firms expressing interest in Guam's textile industry.

RESPONSE OF JESUS S. LEON GUERRERO TO ADDITIONAL WRITTEN QUESTIONS POSED BY DELEGATE BLAZ

JESUS S. LEON GUERRERO
President & Chairman of the Board

Bank of Guam

" The People's Bank "

MEMBER OF THE FEDERAL DEPOSIT INSURANCE CORP.

P.O. BOX BW
AGANA, GUAM 96910
TEL: 472-8865/6/7

Only locally owned Bank - founded 1972 by Jesus S. Leon Guerrero

October 4, 1985

Mr. Joe Cobb
Room 359
HOB Annex 2
Washington, D.C. 20515

Dear Mr. Cobb:

Congressman Ben Blaz wrote to me requesting that I provide you with additional information regarding economic conditions in Guam. The answers to these questions are provided herein.

There is definitely a place for high technology industry on Guam. The work force although limited, is highly educated and trainable and can easily adapt to job requirements. Needed labor and skill not available in Guam could be recruited from neighboring islands and countries if necessary, however, local citizens must have the first opportunity. Otherwise, our overall economic goals in terms of creating jobs for our people will not be fulfilled.

Guam is strategically located in the midst of Asia - Pacific having easy access to over half of the world population all within 3 hours flying time namely: Japan, Mainland China, Hongkong, Philippines, Taiwan, Singapore, Bangkok, Trust Territory Islands. Guam being the only U.S. possession in the area, makes it a good home base for U.S. companies doing business in this area. It is under the American flag, U.S. laws, western way of doing business, no monetary controls, good communication, good transportation services and no import and export controls. Head Note 3A allows access to U.S. markets of products duty and quota free when 51% of the value is done in Guam. The Guam Economic Development Authority (GEDA) grants 100% tax rebate for a period of 10 years for eligible companies including high technological industry. There is one high technological company manufacturing computer chips, etc. being located in Guam at this time. The company is from Taiwan which will be exporting their products to the U.S.

The cost to Guam of import restrictions in terms of jobs and dollars is limited to present facilities and tax revenues based on export to the U.S. What concerns us is the future, if the present benefits of Head Note 3A is modified or eliminated, we will suffer loss on a clothing manufacturer of approximately 150 - 200 employees. This is the first and the only industry that is successful at this point and could be a catalyst for any future company to locate in Guam. If something happens to it, our future in the industry is bleak.

While I was dictating this letter an idea came to my mind and that is our thoughts have always been to manufacture products in Guam, buying raw materials from Asia exporting the finished products to the U.S. Perhaps a reverse of the situation should be considered whereby U.S. companies would locate in Guam using U.S. materials to manufacture the products in Guam exporting such products to the Asian countries. I am sure there are advantages and disadvantages involved but it will be an interesting project. It should be explored. It would help us in the reduction of the imbalance of trade as well as the reduction of the national deficit.

I hope that the above information can be of some assistance to you. If you need further information, kindly let us know.

Sincerely,

JESUS S. LEON GUERRERO
President and Chairman of the Board

Statement of Hon. Joseph T. Ada, Senator, Guam Legislature

TESTIMONY BEFORE JOINT ECONOMIC COMMITTEE
U.S. CONGRESS

It is indeed an honor and privilege to address the first-ever Joint Economic Committee of the U.S. Congress that will be examining ways to spur economic growth and prosperity for the U.S. Territory of Guam. It is encouraging to know that federal policy-makers at its highest level are providing this forum to the people of this American soil so that together we can begin to tackle some of the constraints that have been hindering our island's overall development. For only then can Guam reach her goal of economic self-sufficiency and realize her potential as America's hub of economic activity in the Western Pacific region.

In order for real progress towards a viable economy to occur on Guam, several things must happen: the specific federal constraints which inhibit our development must be eliminated, giving special consideration to the altogether unique situation faced by a tiny island thousands of miles from the U.S. mainland; and the current relationship between the federal and territorial governments must be re-defined and specified so that a consistent procedure is adopted in terms of legislation that affects Guam.

Extraordinary situations, such as the one that Guam now finds itself in, at times require extraordinary interpositions. This Joint Economic Committee is such an extraordinary interposition on behalf of the people of Guam.

Overcoming these economic development constraints, which originate primarily due to federal legislation or regulations or due to Guam's anomalous political status, will go a long way in attaining Guam's journey to self-reliance and her expansion of its economic base.

The most immediate of Guam's needs is the release of excess federal land for economic development.

Between November 21-23, 1949, the Subcommittee on Public Lands of the U.S. House of Representatives conducted public hearings on the Organic Act of Guam.

One of the most important segments of the subcommittee's report to the whole House was this recommendation: that the need of the military for land now held by it should be carefully re-examined with the objective of releasing, at its first possible moment, all lands not actually required for military purposes. That was 35 years ago.

The past is indeed a prologue. So there is no need to dwell on the errors and omissions of the past..be it those of the military, the land-owners, or of the local and federal government. The main interest now is the immediate redress of our people's grievances. Part of that is returning land back to the people of Guam to be used for the economic development of the territory.

The Guam Land Use Plan, done strictly by the U.S. Navy, undertook a study in April 1975 and then completed and released in March 1978 which indicates that as of 1978, there were 2,625 acres of land available for release then from the Department of Defense and an additional 2,555 acres will be available after certain conditions were met. However, of the 5,180 acres designated as releasable, 4,877 acres are reserved for exchange purposes.

Since then, only 1,439 acres have been returned to the Government of Guam. Guam's total land mass of 212 square miles, of which one-third is occupied by the military, signals the importance of available unused land that can be returned to the people of Guam for expansion of her economic base. The return of these surplus properties at no cost to the people is strongly recommended to this Joint Economic Committee.

Some 927 acres of federal excess lands that have been returned to the people are located at Cabras Island near Guam's only seaport, the Commercial Port. A recent federal restriction commonly known as the Brooks Amendment is making locally-initiated development of these acres of land unrealistic as it requires that at least 70% of all land revenues derived from Cabras Island development be paid back to the United States Treasury. Guam's limited capital improvement funds makes development of Cabras Island virtually impossible because of the prohibitive restriction. A repeal of the Brooks

amendment will pave the way for economic expansion at Cabras Island, which will result in the creation of new jobs and the increase of the tax revenue base for the Government of Guam, and possibility of developing a support base fo commercial fisheries industry on Guam.

The development of a fishing industry on Guam is being directly thwarted by the Merchant Marine Act of 1920, otherwise known as the Jones Act, which prohibits tuna boat commercial fishermen to offload their catch onto foreign boats to be transhipped to U.S. canneries. Since Guam is the only American flag territory in the Western Pacific where the Jones Act applies, this inconsistency in federal policy places Guam at an economic disadvantage with its more fortunate fellow American flag neighbors. The development of a commercial fisheries industry on Guam can truly expand Guam's economic base and an exemption from the Jones Act through Congressional action is the key to this.

The participation of local residents in Guam's fisheries development is another one of Guam's goal for economic growth, however, the existence of United States vessel documentation laws severely retard this quest. Current federal laws require that cargo ships carrying freight to and from Guam to the United States must be on U.S. flag vessels and that certain vessels, particularly commercial fishing vessels must be built within the United States. The prohibitive cost of purchasing U.S. built vessels is certainly the most discouraging factor among local residents on Guam from participating in the fisheries industry.

If Congress would amend the vessel documentation laws to allow for the use by local residents of fishing vessels, no matter where they were built, as American flag vessels, Guam then would be one step closer to building a locally-based fishing industry, which is integral in our plans for economic self-sufficiency.

The development of light industries on Guam is another facet of Guam's economic plans that have been hampered by federal trade restrictions. Currently Guam and other insular possession, operating under Headnote 3(a) of the United States Tariffs Schedule, can export those products manufactured in Guam to the U.S. and its Customs Territory. The problem arises when quota restrictions are imposed either arbitrarily or easily be agencies of the federal government on those manufactured goods. Headnote 3(a) has already caused the demise of Guam's watch manufacturing industry and it currently poses a threat to the garment manufacturing business.

The economic benefits derived from amendments to Headnote 3(a) by U.S. Congress are manifold: a prosperous manufacturing industry for Guam that has the potential of being America's manufacturing center in the Western Pacific; increased employment for local workers currently faced with an 8.9% unemployment rate; and increased revenue base for our financially-strapped government.

I mentioned earlier that Guam's federal-territorial relationship is one of the key factors in ensuring sound economic development for this remote island. Guam's commission on Self-Determination currently is drafting a Commonwealth Act, in which major changes involving the lifting of economic contraints placed on Guam by the federal government is scheduled to be addressed.

Although it would be premature to expound on several of those major issues to be contained in the Commonwealth Act, I wish to re-emphasize the importance of re-defining Guam's relationship with the federal government in order for any viable economic development to occur. Because of Guam's anomalous status, it has been treated in various pieces of federal legislation sometimes as a territory, sometimes as a state, sometimes as a foreign country and sometimes in a totally unique manner. Through this Commonwealth Act, Guam is not only aspiring for a more clearly-defined political tie with the United States but equally as important, Guam is seeking greater latitude in economic areas that would enable her to become less dependent on federal hand-outs and

focus more on viable programs for economic self-sufficiency.

This Joint Economic Committee can certainly pave the way for Guam to reach her economic goals. Thank you for your concern about the American people of this territory and the economic future of our island.

AFTERNOON SESSION

The Subcommittee on Trade, Productivity, and Economic Growth met, pursuant to notice, at 2:03 p.m., in room 2203, Rayburn House Office Building, Hon. Daniel E. Lungren (vice chairman of the subcommittee) presiding.

Present: Representative Lungren.

Also present: Joe Cobb, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, VICE CHAIRMAN

Representative LUNGREN. I'd like to open this second part of today's Joint Economic Committee hearings by welcoming my distinguished colleague, Delegate Ben Blaz, representatives of the Federal Government, and leaders of Guam who have joined us this afternoon.

This hearing is being conducted by the Subcommittee on Trade, Productivity, and Economic Growth with the aim of focusing attention on several important concerns of the people and leaders of the territory of Guam.

I've become familiar with some of the issues and challenges facing the territory through my discussion with Delegate Blaz, who represents the territory here in Congress. And working with him in Congress, I've come to know his deep concern for the territories.

Earlier this year, in fact, he served as a special guest on my local television program. Didn't quite reach Guam, but there are a few Guamanians, I think, who find themselves occasionally in southern California.

I believe this afternoon's hearings can significantly help all of us to better understand and appreciate the issues of this Federal Territorial Equasion.

The Joint Economic Committee is an investigative rather than a legislative body. The committee is a congressional forum where new ideas are examined and brought forward. It has, however, served as a launching pad for major national themes, such as tax simplification, privatization, and enterprise zones. In fact, I think this particular subcommittee did some of the seminal work on the question of a national industrial policy when that was being discussed here on the Hill 2 years ago.

This session will focus on issues which Delegate Blaz had brought to our attention, issues that are being addressed through legislation he's introduced.

This afternoon, we will hear testimony on these topics from the lead man for territories in the administration, Mr. Richard Montoya, as well as Guam government and business leaders, who will address the territory's proposed Commonwealth Act and the role it can play in Guam's development. We will also hear from Navy and Guam leaders on the military landholdings in the territory as well as proposals for the release of excess Federal land to stimulate economic development.

The closing panel will testify on impediments and inducements to business development on Guam and Federal policy on trade, immigration, and maritime matters that currently and will continue to affect the territory.

First, I would invite Delegate Blaz to the table to make any statement that he wishes as we begin this second part of our inquiry today.

STATEMENT OF HON. BEN BLAZ, A U.S. DELEGATE IN CONGRESS FROM THE TERRITORY OF GUAM

Delegate BLAZ. Thank you. Thank you very much, Mr. Vice Chairman. I did enjoy very much that television show that was beamed on Long Beach, where we have quite a number of our Guamanians residing, in your district. That's very nice.

What we are trying to do is ironic. It's a very ironic thing that the more we try, the more we strive toward economic self-sufficiency, the more difficulty we seem to have. I once characterized the situation on Guam as though we were halfbreeds, halfbreeds in the sense that for some purposes, such as pay, pollution safety, we have to observe the Federal standards. And, yet, for quota and import purposes, we are subjected to foreign standards.

So we don't know whether we're fish or fowl in some instances. And it's very, very difficult to plan for the future when you don't know what your status is right now.

You know, Guam has sought for so long to be self-sufficient, it's almost the epitome of the American dream and, yet, every once in a while, something is thrown our way.

About 4 weeks ago, I testified before a subcommittee of Ways and Means and the purpose of my testimony was simply to ask if they would please remove from the list of foreign countries the American territory of Guam.

The chairman looked at me and he said: "You must be kidding." And then he looked at page 2, and there was Guam listed as a foreign country. If it weren't so serious, it would be hilarious, you know, but it's just getting very tiring.

Here, we have recognized that this is the year, the decade of the Pacific. The President and others have identified the Pacific Basin as the potential for the future of the United States. The American territory of Guam is in the middle—in the middle of the Pacific Basin. It could be the capital of the Pacific Basin. But rather than see efforts being made to try to take advantage and develop this great potential, which is the America on the doorstep of Asia, we seem to be always trying to keep from getting drawn by the enormous number of policies and programs that are, I don't believe, designed to hurt us. They were just carelessly crafted by people who do not have the sense and the appreciation for the Americans on the periphery of the Republic.

The framers of the Constitution perhaps did not envision the American territories. And so I think you'll hear this afternoon a statement, two statements, by Guam business and government leaders trying to call Congress' attention to this terrific dilemma that we have.

All the territories, not just Guam—but the Virgin Islands and American Samoa, and to some degree, Puerto Rico have the same difficulty. So my last word to you, sir, is that if we accomplish anything, it would be to ask you to please discover America on Guam.

Representative LUNGREN. Thank you very much, and I'd invite Delegate Blaz to be up here on the panel for the afternoon.

Delegate BLAZ. Thank you, sir.

Representative LUNGREN. Now I would like to invite Hon. Richard Montoya, Assistant Secretary for Territorial and International Affairs of the Department of the Interior to come forward.

And we have a copy of your prepared statement, and you may proceed as you wish. Welcome.

STATEMENT OF HON. RICHARD T. MONTOYA, ASSISTANT SECRETARY, TERRITORIAL AND INTERNATIONAL AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. MONTOYA. Thank you, Mr. Vice Chairman. I'm very pleased to be before your subcommittee today, and I couldn't get started in my comments if I didn't commend the fine Delegate from the territory of Guam, someone that I consider a close personal friend as well as a true working partner in looking after the interests of Guam. I think it's indeed commendable for someone that has just joined the Congress and just been certified this year as an official member of this august body, to have accomplished so much and to know his way around Washington and within the administration as well as General Blaz does.

It's indeed a pleasure to work with him on getting things done for the territory and our mutual constituents. I consider the people of Guam my constituents, just like he does.

There have been a lot of attempts made to have me say where I stand on the issue of Commonwealth, Mr. Vice Chairman, and I have steadfastly held that until we have a consensus document that truly reflects the feelings of the people of Guam, I will withhold my comments. And there's a very good reason for that.

As I learned in civics a few years back, status is determined by the Congress, not the executive branch. And I know that Delegate Blaz has been tirelessly working with the Commonwealth Commission on trying to give them the type of guidance that would be helpful in putting forward a commonwealth document that might be acceptable to Congress. There are desires and there are needs, and sometimes the desires are things that are strongly desired but they don't reflect the true needs. And maybe, on the whole, they can't be provided as one gigantic piece of legislation that will answer all the ills of the territory of Guam, but rather those that have universal application, where the case can truly be made that a certain Federal action is acting as a hindrance to growth to Guam.

I think those are the things that we're most interested in addressing. And, of course, this administration, as you well know, is committed to regulatory reform. There's much that can be said about how regulations have hindered the proper fast growth of Guam. And those are wrong and they should be corrected.

The Congressman has mentioned many of these. Earlier testimony, I think discussed some of these, if not earlier this morning. This afternoon, I notice that Jesus Guerrero had talked about headnote 3A and the problems that we've had in headnote 3A.

My concern, as is Delegate Blaz' concern is that, in this feeding frenzy that there seems to be in Congress right now to act as protectionists of U.S. industry, for some reason, our most important strategic insular possessions have been lumped in with foreign countries, and have been treated as stepchildren. These are wrong; these are U.S. citizens that are being discriminated against because they are insular and they aren't part of American mainland.

And, again, I think this is something that needs to be corrected before it gets out of hand and it completely strangles economic growth in Guam, the Virgin Islands, American Samoa and, soon, our new territory, the Commonwealth of the Northern Mariana Islands.

This is a very serious threat to what the administration has been trying to do and to what Delegate Blaz has been trying to do, and that's create an economic climate that is conducive to growth and creating jobs for the people of Guam.

I can't be more serious about my concern that this protectionist mood is going to thwart our efforts to make these self-sufficient islands.

It's not healthy for our national security and it's something that, hopefully, the Members of Congress will be mindful of as they start looking at possible protectionist measures, that we don't shoot ourselves in the foot, and those feet being our outlying islands that are so critical to our very being.

In today's present day economy, in Guam, we have three major components—the military, the territorial government, and tourism, Mr. Vice Chairman. The problem we have in this island, as well as other territories, is we're weighted too heavily on Government.

For example, Government-owned utilities and hospital employees amount to 9.5 percent of all Government employees. This is something that could be changed through privatization. I was interested to note that this was mentioned this morning.

Despite some present day shortcomings, I feel that the future in Guam is bright. We have good leadership in Guam. We have good appreciation of the possibilities that exist if Guam can be given the right tools to grow and prosper.

Fulfillment of Guam's economic promise depends on the viability of what I like to call a three-legged stool. Each leg is important to supporting the overall weight of the seat of that stool.

The first is proximity to international financial markets, and trading markets. Heritage Foundation, one of the most respected think tanks in this country, has put forward a concept of making Guam a United States-Hong Kong. I think this is something that's worthy of note. I think it's something that could be achieved if the innovative thinkers get together and start approaching this in a systematic way that can provide the type of innovations that can make this happen.

The second leg of this three-legged stool is access to capital. In the past, we've seen—I've been told by the people in Guam, the leadership in Guam—that we've seen some phenomenal success with industrial revenue bonding.

This has been something that has been provided that has worked, that has provided the necessary capital to enhance economic growth in Guam.

Regulatory reform is something that is the third leg of the stool that has to be there if we're to prosper, and we're to make Guam and the other territories self-sufficient.

We need economic freedoms—freedoms from and freedoms to. These freedoms are a good dose of things that provide for Guam's economic support. They provide for the type of stability that makes Guam a perfect location for new investment.

Some of the freedoms from include several accomplishments that we've all worked hard on, the removal of unnecessary laws and regulations. Elimination of clean air emission standards for Guam Power Authority. Very costly, yet, it didn't apply because this was out in the islands, out in the Pacific where we have tradewinds that blow any emissions over uninhabited ocean.

And, yet, it was going to cost something like $25 million to implement these scrubbers for the Guam Power Authority.

Exemption from Federal adverse effect wage law. They got that through last year. Labor of quota under textile rules of origin, that allowed us to have 160,000 dozens of sweaters coming into the United States.

Enactment of the 15-day visa waiver for tourists and business, which enhanced tourism growth. And the efficiency of running tourists through without causing them bureaucratic delays before they got to enjoy their holidays.

These are all very important to us in maintaining a strong economic climate that can allow Guam to prosper.

Exemption from the defense-based act, workmen's compensation insurance, which would have been extremely costly to the people working on defense bases and constructing those defense contracts.

We have the tax change, which was discussed this morning, that would allow Guam to make tax changes appropriate to its economic needs rather than being applied by Washington. Who better knows what's needed in the area of revenue and revenue collection than the people of Guam themselves?

So I think this is something that we need to look to and we need to see what can be done with the local government in Guam to make the necessary changes regarding tax policy in Guam.

Guam has voiced an interest in additional freedoms that might be helpful. Some of the examples that have been cited to us are exemption from FAA noise standards; exemption from the Jones' Act regarding tuna shipments; exemption from duties on sweaters; or a local labor provision that would provide a cap on production and these units coming into the United States.

I think, by and large, Mr. Vice Chairman, these, coupled with some of the innovative things that we've done in the past couple of years under my tenure as Assistant Secretary, have provided the type of climate that is just beginning to attract new industry.

The best example of this is something called the foreign sales corporations. These foreign sales corporations were something that allowed the territories to get a headstart on being licensed as foreign sales corporations.

We participated in all of these promotions throughout the United States, in seminars talking to potential investors and Fortune 1,000 corporations about why they should locate in Guam and the other territories.

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Guam was a full operating partner, participating partner, in these discussions and, as a result, we're pleased to say that we have over 200 foreign sales corporations in Guam today.

Why are these important to Guam?

Because we feel that once we get the corporation's foot in Guam's door that they'll like it there and they'll go on to further investment on Guam.

PRIVATIZATION

As our Federal funds are pretty much straightlined and we've seen the highwater marks of Federal funds going into the territories, there still continues to be a growing population in Guam and the other islands.

That only way that this can be provided for is to move some of these traditional private sector operations out of existing Government operations and into the private sector, where they can be done more efficiently and, hopefully, at no cost increases to the people that they serve.

This is something that's extremely important. Governor Bordallo, Delegate Blaz, have both been very supportive of this endeavor, and I have committed $215,000 in technical assistance moneys to make such that this is moved forward.

We hope that as a result of tour initiative in privatization, we will have the desired results of eliminating chronic budget deficits and act as a new catalyst for new business formation in Guam.

In conclusion, we feel that fulfillment of Guam's economic promise, the three-legged stool, is inherent in their proximity to market, access to capital and regulatory reform. Without any of these, Guam's potential for growth will teeter and fall. All measures discussed will spur Guam's economic growth with little or no cost to the Federal Government. It is a program fashioned in today's tight fiscal climate that can do the job and meet the challenge that we have faced—that we're facing today.

With that, Mr. Vice Chairman, that concludes my statement—any questions you might have, sir.

[The prepared statement of Mr. Montoya follows:]

PREPARED STATEMENT OF HON. RICHARD T. MONTOYA

Mr. Chairman. I am pleased to appear before this distinguished committee to discuss Guam's business role in Asia.

COMMONWEALTH

In your letter of invitation, I was requested to address the current and prospective economic situation on Guam with special regard for Guam's proposal for commonwealth status. I have carefully avoided discussing Guam's commonwealth proposal in its many and varied forms until a consensus is reached on Guam. I believe that the proof of consensus is not the issuance of a document by an appointed committee, but rather the approval of a proposal in plebiscite and its transmission to the Federal government.

The reason I prefer withholding my opinion on the commonwealth issue until after the plebiscite is, I believe, important -- to guard against Federal interference in the internal political processes of Guam. That is not to say, however, that there is not considerable room for discussion of the larger subject of Guam's economy and its prospects for the future. I would like to turn to these economic issues at this time.

THE PRESENT

Three component parts drive Guam's economy today. They are (1) the military, (2) the territorial government, and (3) tourism. These components provide the economy with some diversity, which is healthy.

The governmental component, however, is too heavily weighted. The local government conducts a number of activities that elsewhere may be found in the private sector. The government, therefore, is a large employer. Contributing to high government employment figures are Guam's ownership of utility and hospital facilities, which accout for 9.5 percent of the governmental work force. It must also be noted that the government pays high wages. All of this contributes to a stifling of private sector development.

THE FUTURE

Despite some present-day shortcomings, the future is bright for Guam's economy. Fulfillment of this bright economic promise, however, depends on factors that can be likened to the proverbial three-legged stool. Each leg helps support the entire structure, and each leg is an integral part of that structure. The three factors on which Guam economic promise depends are -- (1) proximity to the international financial and trading markets, (2) access to capital, and (3) regulatory reform. To ensure realization of

the promise, all three legs of the stool must be in place.

Much has been said and written about Guam's potential as a strategic business location. Guam's proximity to major Asian markets, its diverse culture, and its United States-backed stability make it a natural location for American and foreign firms interested in international trade.

Prospects for the Guam economy are positive. America's continuing military presence there, the need for American firms to be more internationally competitive, continued Administration pressure on foreign countries to open their markets to our products and services, and the continuing growth in the tourism industry all bode well for the territory.

The challenge before us is to make the best use of limited Federal resources and to turn Guam's promising locational potential and bright economic prospects into reality.

Economic freedom has been said to have two meanings in this country -- "freedom from," and "freedom to." In America we have "freedom from" unnecessary governmental intrusion into our personal and business affairs. We also have "freedoms to": freedom to work and live where we please, freedom to express our religious and political beliefs, and freedom to take risks in the market place.

I believe that a good dose of these two freedoms, applied in the economic sphere, is just what is needed to keep the three legs of our stool-for-growth in place and ensure accelerated economic growth for Guam.

Freedom From

Guam needs "freedom from" unnecessary and burdensome laws and regulations, and the additional costs associated with them.

With few natural resources and the great distance to the United States mainland, any additional cost imposed by government will have greater deleterious effect in Guam than in the fifty states. That is why, under the Reagan Administration, we have moved consistently and vigorously to exempt Guam from unnecessary regulations that impede business growth. Examples of areas where such regulations have been reduced include:

(1) exemption from Clean Air Act emissions requirements under certain conditions,

(2) exemption of Guam from the Federal adverse effect wage law,

(3) waiver of quota under textile rules of origin thereby allowing importation of up to 160,000 dozen sweaters per year,

(4) enactment of a visa waiver for tourists and business travellers, and

(5) exemption of Guam from the Defense Base Act workmen's compensation insurance.

The Reagan Administration has also proposed changes in tax law to allow Guam to develop a revenue code more appropriate to

its economic needs. Let me add that these are special changes and exemptions for Guam over and above the multitude of other deregulation initiatives and reforms approved by the President and Congress for all Americans during the last four years.

There is also ample room at the local level to establish a healthier business and trade climate. Guam needs "freedom from" its costly and overly large local government. Such government dominance in an economy is unhealthy, and given federal budgetary constraints, untenable. High and artifically maintained government wages destroy local incentive to work in the private sector. As a result, alien labor is then required for many jobs which, unless tightly controlled, results in trade abuses and the use of Federal funds and programs which are primarily meant to serve United States citizens. The influx of alien laborers today may cause local political and social realignments tomorrow.

Freedom To

Allow me to talk now about the second aspect of freedom with specific respect to Guam. Guam needs additional "freedoms to" in order to enhance its prospects for growth. Foreign sales corporations and privatization are two areas of opportunity for expanding this freedom.

I believe that an excellent and successful model was developed last year with the enactment of the foreign sales corporation (FSC) law. While, as expected, the United States

Virgin Islands placed the majority of the newly formed FSCs, Guam was successful in influencing many large FSCs to locate in the Pacific. Having participated in many of the foreign sales corporation seminars, I can personally attest to the competitive spirit displayed by the Guam delegation that resulted in the successful placement of over 200 FSCs on Guam. It was gratifying to see firsthand that the newly granted freedom to locate foreign sales corporations was well appreciated by the territories, and how the territories, as a preferenced location, were supported by the Departments of Commerce and Interior.

In the trade area the United States needs to do a better job of defining a policy that capitalizes on Guam's proximity to the Asian markets. Through devices such as the foreign sales corporation, we can increase Guam's status in international trade consistent with free trade policies.

As the dollar drops on foreign exchange markets, the real FSC story will be written with an Interior-backed follow-up campaign to attract the FSC's parent companies to the islands for additional business purposes.

Privatization can give Guam's business community the opportunity that thousands of businesses enjoy on the mainland. This is the "freedom to" compete for contracts for providing public services. I am pleased to inform the committee that Governor

Bordallo has pledged his vigorous support, together with Governor Lutali of American Samoa and Governor Tenorio of the Northern Mariana Islands, for a comprehensive program of privatization. Under the Governor's direction, with technical assistance provided by Interior, Guam is identifying those services, now performed by government, that the private sector can perform more efficiently and at lower cost.

I have no doubt that privatization will help eliminate the territory's chronic budget deficits and act as a catalyst for new local business formation.

CONCLUSION

Fulfillment of Guam's economic promise depends on maintaining, in the future, our three-legged stool -- proximity to markets, access to capital, and regulatory reform. Without any one of these, the stool and Guam's potential for growth will not stand.

All of the measures that I have discussed will greatly aid in spurring economic growth for Guam, at little or no cost to the Federal government. It is a program that can be fashioned in today's tight fiscal climate, that can do the job and meet the challenge.

Representative LUNGREN. Thank you very much, Mr. Montoya.

As you know, and as you articulated in your opening comments, we had hoped to talk about Guam's economic growth, not only with respect to present-day circumstances, but the proposed Commonwealth Act. I understand your reluctance to get involved in discussion of the Commonwealth Act, since you perceive it to be a decision to be made by the people of the Territory and by the Congress, but maybe I can indirectly ask you something.

Do you see anything with respect to proposed commonwealth status that would contradict the types of things that you see as important to the economic growth of Guam or contradictory to the efforts that you set out concerning the administration's action over the last several years?

Mr. MONTOYA. I couldn't respond to that, Congressman, with any specificity. I know that—having been briefed by my staff—that there are some sections of that draft document that would be very controversial and would fly in the fact of some of the most powerful pressure groups that operate in this city. I would think that with some discussion on these elements and some negotiating with the people on the Commonwealth Commission that these could be trimmed down to initiatives that wouldn't provide such a large target to doom this whole package to failure. I've mentioned a couple of the things that have caused me some problems.

It is, indeed, noteworthy to talk about indigenous peoples having a right to speak out on what's going to be done, but it must be remembered that we're operating under the U.S. Constitution out there, and I think all people need to have a voice in what document they're going to use to be governed in the future.

I, of course, am referring to a provision dealing with limiting voting only to chamarros. Any reference like this that would exclude a mass—a vast amount of the population of Guam, I think would come under a great deal of scrutiny and criticism.

Some of the other areas—like I said, Congressman, I think it would be only appropriate to wait until we have a plebiscite and see those issues that are fully discussed, fully debated, fully understood, and fully accepted, as a consensus document from the people of Guam. The staff that is working on this Commonwealth document has been working with my staff at the staff level, and I think, with some of our sister departments in the Federal Government, we have identified some of the areas that would have a difficult row to hoe, much like the Redskins did last night, in getting through.

I think that is really—with the indulgence of the Chair—as far as I would care to go into the Commonwealth.

Representative LUNGREN. Thank you very much. Delegate Blaz?

Delegate BLAZ. No; I was hoping that you would go ahead and say something about the Commonwealth, but I guess discretion is better than valor today.

Mr. MONTOYA. I think that is accurate. [Laughter.]

Delegate BLAZ. So be it. Thank you.

Representative LUNGREN. All right. Thank you very much for your testimony. We appreciate it. And I understand the sensitivity to which you are referring. Thank you very much.

We have two others who were to speak on the question of Guam's proposed commonwealth status, its effect on Guam's economic growth, but I have had a request for Mr. Wayne Arny, who is the Principal Deputy Assistant Secretary of the Navy, to be able to appear at this time, because of a pressing engagement he has off the Hill. So we will come back to this question after we first hear from Mr. Wayne Arny, who will be the first person to discuss the question of the impact of Federal land and contracting policy on Guam's economic development.

If you would please introduce the two gentlemen with you, and then I do believe I have copy of your prepared statement, and that will be considered part of the record, and you can proceed as you wish.

STATEMENT OF L. WAYNE ARNY III, PRINCIPAL DEPUTY ASSISTANT SECRETARY, SHIPBUILDING AND LOGISTICS, DEPARTMENT OF THE NAVY, ACCOMPANIED BY VICE ADMIRAL HUGHES, DEPUTY CHIEF, NAVAL OPERATIONS, LOGISTICS; AND COMMODORE HAGEN, FORMER COMMANDER, NAVAL FORCES, MARIANAS

Mr. ARNY. OK. Thank you, Congressman.

I'd introduce, on my right, Vice Admiral Hughes, who is the Deputy Chief of Naval Operations, Logistics, and on my left, Commodore Hagen, who was recently relieved as Commander of Naval Forces, Marianas.

I was taught when I worked over in the Senate, never travel anywhere without a lawyer. Well, when discussing Guam issues, I like to have somebody with me who has been there and more versed in the issues than I.

One takes less flak that way.

Mr. Vice Chairman and members of the subcommittee, I am the Principal Deputy Assistant Secretary of the Navy for Shipbuilding and Logistics. The title is a little misleading, for as part of it, I am also responsible to the Secretary for all military construction and real estate issues.

I appreciate the opportunity to discuss the Navy's land use requirements on Guam with you. In the face of a growing Soviet threat, strong United States Navy presence in the Western Pacific has never been more important, and the strategic role of Guam and the naval activities on Guam have never been more vital.

The Navy's need for land on Guam is dynamic and its driven not only by basic operational mission requirements but also strategic considerations. With our goal of a 600-ship Navy approaching reality, fleet support activities such as Guam are expanding worldwide.

With Guam's strategic location and close territorial ties, it, by necessity, figures predominantly in naval planning for contingencies based on political and military developments in the region. Should the United States lose one or more of its current footholds in the Pacific, there would be a far greater need for Guam to fill that gap. But I emphasize that increased land use on Guam for contingency planning, expanding operational requirements is, and

will be, viewed in combination with other strategic locations in the Western Pacific.

The result may well be one of increased dependence by the Navy on Guam, not merely duplication of functions performed elsewhere.

The Navy's presence today in Guam includes numerous major commands, a large military and military-related population and significant land holdings. These land holdings have been the focus of much discussion in recent months. In a 1977 land-use plan, the Department of Defense identified numerous parcels of Navy and Air Force land for disposal. GSA has, in fact, taken steps to carry out that disposal, at least phase 1 of that disposal.

Unfortunately, the 1977 study did not address contingency planning criteria which could lead to larger land requirements, such as the loss of a foothold in the Western Pacific, nor did it address expanding fleet support requirements related to the 600-ship Navy. To protect our national interest in the Pacific, we must now insure that our security is not threatened by the precipitous disposal of these lands.

On the other hand, I believe that we can work with all parties to preserve our options for an enhanced naval presence and to meet the land development needs of the citizens of Guam.

Although military requirements may not dictate permanent retention of some of the 1977 parcels, other land parcels could be developed by the government of Guam to be compatible or complementary to defense requirements and available to reverting to the military should the need arise. Additional agreements could well include contingency recapture deed provisions that would facilitate appropriate use by the government of Guam.

In short, and in summary, there is no reason why we cannot strike a balance between national security and the local needs of Guam.

The legislation which permitted the government of Guam to develop an "Apra Harbor Complex" is an example of how such cooperation has worked in the past. This legislation allowed 927 acres of Navy harbor land to be conveyed to Guam for development of a commerical port. We look forward to working with the Congress and with Delegate Blaz and the citizens of Guam on that behalf.

Again, I thank you for the opportunity to testify, and we would be pleased to take any questions you might have.

[The prepared statement of Mr. Arny follows:]

Prepared Statement of L. Wayne Arny III

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM L. WAYNE ARNY, III, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING & LOGISTICS). I APPRECIATE THE OPPORTUNITY TO DISCUSS WITH YOU U. S. MILITARY LAND USE REQUIREMENTS ON GUAM. IN THE FACE OF A GROWING SOVIET THREAT, A STRONG U.S. MILITARY PRESENCE IN THE WESTERN PACIFIC HAS NEVER BEEN MORE IMPORTANT. THE STRATEGIC ROLE OF GUAM AND ITS NAVAL ACTIVITIES HAS NEVER BEEN MORE VITAL.

OUR MILITARY NEED FOR LAND ON GUAM IS DYNAMIC AND IS DRIVEN BY STRATEGIC CONSIDERATIONS AS WELL AS BY BASIC OPERATIONAL MISSION REQUIREMENTS. WITH OUR GOAL OF A 600 SHIP NAVY APPROACHING REALITY, FLEET SUPPORT ACTIVITIES, SUCH AS THOSE IN GUAM, ARE EXPANDING WORLD-WIDE. WITH ITS STRATEGIC LOCATION AND ITS STATUS AS PART OF THE UNITED STATES (OR U.S. SOVEREIGN TERRITORY), GUAM BY NECESSITY FIGURES PREDOMINANTLY IN NAVAL PLANNING FOR CONTINGENCIES BASED ON POLITICAL AND MILITARY DEVELOPMENTS IN THE REGION. SHOULD THE UNITED STATES LOSE ONE OR MORE OF ITS FOOTHOLDS IN THE PACIFIC, THERE WOULD BE A GREATER NEED FOR GUAM TO FILL THE GAP. HOWEVER, I EMPHASIZE THAT INCREASED LAND USE ON GUAM FOR CONTINGENCY PLANNING AND EXPANDING OPERATIONAL REQUIREMENTS IS AND WILL BE VIEWED IN COMBINATION WITH OTHER STRATEGIC LOCATIONS IN THE WESTERN PACIFIC. THE RESULT MAY WELL BE ONE OF INCREASED DEPENDENCE ON GUAM, NOT MERELY DUPLICATING FUNCTIONS PERFORMED ELSEWHERE.

THE NAVY AND AIR FORCE PRESENCE TODAY IN GUAM INCLUDES NUMEROUS MAJOR COMMANDS, A LARGE MILITARY AND MILITARY RELATED POPULATION, AND SIGNIFICANT LAND HOLDINGS. THESE LAND HOLDINGS HAVE BEEN THE FOCUS OF MUCH DISCUSSION IN RECENT MONTHS. IT IS WELL KNOWN THAT A 1977 LAND USE PLAN IDENTIFIED NUMEROUS PARCELS OF NAVY AND AIR FORCE LAND FOR DISPOSAL. GSA HAS IN FACT TAKEN STEPS TO CARRY OUT THAT DISPOSAL. UNFORTUNATELY, THE 1977 STUDY DID NOT ADDRESS CONTINGENCY PLANNING

CRITERIA WHICH COULD LEAD TO LARGER LAND REQUIREMENTS, SUCH AS THE LOSS OF A FOOTHOLD IN THE WESTERN PACIFIC NOR DID IT ADDRESS EXPANDING FLEET SUPPORT REQUIREMENTS RELATED TO THE 600 SHIP NAVY. TO PROTECT OUR NATIONAL INTERESTS IN THE PACIFIC WE MUST NOW ENSURE THAT OUR SECURITY IS NOT THREATENED BY THE PRECIPITOUS DISPOSAL OF THESE LANDS.

I BELIEVE THAT WE CAN WORK WITH ALL PARTIES NOT ONLY TO PRESERVE OPTIONS FOR AN ENHANCED NAVAL PRESENCE, BUT ALSO TO MEET GUAM'S LAND DEVELOPMENT NEEDS. ALTHOUGH MILITARY REQUIREMENTS WILL DICTATE THE PERMANENT RETENTION OF SOME PARCELS, OTHER LAND PARCELS COULD BE DEVELOPED BY THE GOVERNMENT OF GUAM TO BE COMPATIBLE OR COMPLEMENTARY TO DEFENSE REQUIREMENTS AND AVAILABLE FOR USE BY THE MILITARY SHOULD THE NEED ARISE. ADDITIONAL AGREEMENTS COULD VERY WELL INCLUDE CONTINGENCY PROVISIONS THAT WOULD FACILITATE APPROPRIATE INTERIM USE BY THE GOVERNMENT OF GUAM.

IN SHORT, THERE IS NO REASON WHY WE CANNOT STRIKE A BALANCE BETWEEN NATIONAL SECURITY AND LOCAL NEEDS. THE LEGISLATION WHICH PERMITTED THE GOVERNMENT OF GUAM TO DEVELOP AN "APRA HARBOR COMPLEX" IS AN EXAMPLE OF HOW SUCH COOPERATION HAS WORKED IN THE PAST. THIS LEGISLATION ALLOWED 927 ACRES OF NAVY HARBOR LAND TO BE CONVEYED TO GUAM FOR DEVELOPMENT OF A COMMERCIAL PORT. AS A FURTHER EXAMPLE, CONSIDERATIONS INVOLVING THE USE OF APRA HARBOR LED TO THE SELECTION OF GUAM AS THE OPERATIONAL BASE FOR FOUR MARITIME PREPOSITIONING SHIPS (MPS). THIS DECISION, WHICH WAS ANNOUNCED BY CONGRESSMAN BLAZ ON SEPTEMBER 1, WILL LEAD TO OVER 30 MILLION DOLLARS OF NEW CONSTRUCTION AS WELL AS LONG TERM JOBS RELATED TO CARGO MAINTENANCE. WE LOOK FORWARD TO CONTINUING GOOD WORKING RELATIONS WITH CONGRESSMAN BLAZ AND THE CITIZENS OF GUAM ON THESE IMPORTANT ISSUES. THANK YOU AGAIN, MR. CHAIRMAN, FOR THE OPPORTUNITY TO TESTIFY TODAY. I WOULD BE PLEASED TO ANSWER YOUR QUESTIONS.

BIOGRAPHY
L. WAYNE ARNY, III
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Mr. L. Wayne Arny became the Principal Deputy Assistant Secretary of the Navy for Shipbuilding and Logistics on 5 August 1984.

Mr. Arny is a 1964 graduate of the United States Naval Academy with a Bachelor of Science. He also holds a Masters Degree in International Relations from the Catholic University of America, and is a graduate of the Naval War College, the Navy Fighter Weapons School, and the Navy Test Pilot School.

He resigned from active duty in 1981 to become a professional staff member on the Committee on Armed Services of the U.S. Senate under its then new chairman, Senator John Tower (R-Texas). His principal responsibilities revolved around the new Sea Power and Force Projection Subcommittee under its Chairman, Senator William S. Cohen (R-Maine). He served the Committee until assuming his current position.

From 1964 to 1981, Mr. Arny served on active duty with the United States Navy. He spent two tours, one on each coast, in fighter squadrons flying the F-4 Phantom, and has been embarked on the carriers CORAL SEA, RANGER, and SARATOGA off Vietnam, in WESTPAC, and the Mediterranean. He is a Class 54 (1970) graduate of the Navy Test Pilot School and spent one tour with the Service Test Division of the Naval Air Test Center. Mr. Arny is also a 1976 graduate of the Naval War College and served as a systems analyst/long-range planner on the OPNAV staff from 1976-1979. He was a Fellow of the American Enterprise Institute in 1979 and a political-military analyst with the U.S. State Department in 1980. Mr. Arny continues his affiliation with the Navy by remaining active in the Naval Reserve where he was selected recently to the rank of Captain.

Mr. Arny was born on October 21, 1942, in Philadelphia, Pennsylvania. He resides in Alexandria, Virginia, with his wife Sydney and two sons, Skip and Matt.

Representative LUNGREN. Thank you very much, Mr. Arny. I guess I understand pretty well these days the concern with which the Defense Department views giving up land. In my own area, the Defense Department gave up some land to the city of Los Angeles. The city of Los Angeles didn't use it for 7 or 8 years, and now we have a need for some housing for Air Force and Navy in my area. We've got about a 1,200- to 2,000-family waiting list because of the ships in Long Beach, and now we find the city of Los Angeles refusing, for reasons they consider to be appropriate, to give that land back to the Defense Department for us and suggesting that the Department go buy land somewhere else. And I know, having brought that to the attention of the Defense Department, they are even a little more worried nowadays about giving it up.

But having said that, let's just talk a little bit about the impact of the Navy on Guam and what we are talking about in terms of the dimension. How many ships are homeported in Guam?

Mr. ARNY. Right now we have four ships homeported there, permanently—three combat store ships and a submarine tender. That's just the Navy. There are also two Coast Guard vessels. We also announced just the other week that we're going to homeport more maritime pre-positioning ships there as part of the overall worldwide maritime pre-positioning operation.

Representative LUNGREN. What kind of size crews do they have?

Mr. ARNY. That's 60 total crews, which will be contracted out, but we're looking at over the next—beyond the 1987 budget. of some military construction, in terms of repair facilities, because the equipment on these ships, the marine equipment that we carry, we can't just put it on a ship and leave it there until the ship retires; cycle it through periodically to maintain the trucks and tanks, and what have you. And we are going to do all of that on Guam.

Representative LUNGREN. What type of shore facilities do we have now supporting?

Mr. ARNY. Let me give you some specifics on that.

Vice Admiral HUGHES. Basically, these—Congressman, these ships will be anchored out, and they will be in a pre-position status available, in case it continues up somewhere. The ammo wall that is presently built there will help service them. We, on a 6-month basis, rotational, go in and check from a quality-control standpoint, whether the munitions are standing up properly and the same thing for the automative equipment, and do some maintenance on them.

So it is a very cyclical arrangement that we have, and it will have an impact on stevedore work force and things like that. So there is some positive economic advantage to ships being—

Mr. ARNY. We look to, on just the maritime pre-positioning ships, a military construction effort of probably over $30 million, just to get it all approved. And that it is in a couple of years timeframe beyond 1987. And about 250 military to 100 civilians annual payroll of approximately, the best we can figure it, about $8 million.

For shore facilities for the fleet. Now while we have four ships homeported there, and we actually are going to homeport five there, an ammunitions ship in the next year or so, the shore facilities support more than just those five ships, because the fleet

comes through there periodically. And right now, we have a public works center, a naval supply center, a ship repair facility, along with a commissary and exchange and other base facilities. And last year alone, they made a total local purchase of over $190 million and have been awarded contracts, repair facilities of over $34 million in 1984 alone. So we have a sizable investment there.

Representative LUNGREN. Can you tell me how much of the land on Guam is now dedicated for military use, not necessarily being used for military use but presently set aside for present military use or potential military use?

Mr. ARNY. Let me give you those exactly, because I do have them.

Vice Admiral HUGHES. Yes, the population of Guam is about 106,000 and about 15 percent of the population is Navy and about 5 percent is other military. The land use, about 212 square miles, 15 percent is Navy, about 21,000 acres, and 15 percent is Air Force, about 21,000 acres, and then the Government of Guam has about 46,000 acres, about 34 percent.

Mr. ARNY. So total U.S. military is about 30 percent.

Representative LUNGREN. And that's land they're actually using now or holding for possible use in the future?

Mr. ARNY. Yes, sir.

Representative LUNGREN. And I guess one of the messages you're giving me today is, as we look at the possible use of land for local needs, and as you say, there's no reason why we cannot strike a balance between national security and local needs, you're at least asking us to keep in mind the fact that you're not only assessing it from present-day needs but from potential future needs?

Mr. ARNY. Yes, sir, that's the most important part. And as I've discussed with other people in the past, doing the military construction for the Navy, we have very similar issues. For instance, last week I was out in Fallon, NV, where we have one of the largest air training—combat air training ranges that we own, fleet complex. And while we have Navy strategic needs for ranges, we are also interacting with the people of Nevada and the people of Fallon and with the Bureau of Land Management, who owns 87 percent of Nevada.

I stepped into that first about a year ago and have worked very closely with the people out there to strike a balance between what we needed to make sure that the concerns of the people there were met.

I have been asked by the Secretary of Defense to work on this Guam land-use issue and have talked with people from the Commander in Chief Pacific Fleet staff. I understand the position. I have talked with the Commander in Chief of the Pacific, Admiral Crowle himself, and I understand our strategic needs, but I also believe that we must take into consideration the interest and feelings of the people on Guam and that there is a balance to be struck.

That is why I do plan to go out to Guam, hopefully within the next month or two and to look over the situation, to tour the area, because I haven't been there in 15 years. The last time I was in there, I was a young officer landing on an air field. I wanted to get my airplane and get back to the ship. So it was not—one never knows what one gets into in the future.

But I do want to go out and see what the issues are firsthand and to discuss the pros and cons and to try to strike a balance between the interests of the people on Guam and the Navy and the Department of Defense in general, because I will be representing the Air Force as well.

Representative LUNGREN. Delegate Blaz.

Delegate BLAZ. Yes, sir. You know, before you, Secretary Montoya gave us a very precise litany of the things on his agenda that he's trying to accomplish. And that was a very refreshing thing to hear in 1985. You now have given us, in a similar vein, the same thing, and the common thread that runs through it is the willingness that you have demonstrated, both you and Secretary Montoya, to work in partnership with the people of Guam. Believe me, from someone who has been a resident of Guam for 57 years of my life, it is so nice to hear that kind of attitude. It hasn't always been like that. And if nothing else is said today, it's been worth it, just hearing you say that.

I have known Admiral Hughes for a few years, and I know his goood intentions about the concerns that we have on Guam, so I think we have a good person there, and one of Guam's favorite adopted sons, Commodore Hagen, who is sitting to your left there.

So this has been a very enlightening and a very reassuring panel for me personally, for the people of Guam, I'm sure.

I don't have any questions, but one, Congressman, and that has to do with the civil service in Guam. You've only mentioned the impact in a favorable sense of the military on Guam. Surely, you must have some thoughts on the impact of the civil service issue, many hundreds of which are under your——

Mr. ARNY. I learned when I worked over in the Senate for Senator Tower, that the thing that most people in the military, having spent 16½ years in the military, one thing that they don't understand is the constituencies. And I used to—people on various bases would complain that their voices weren't heard. I said, the problem is, you don't vote in the State that you're in. And I learned when I was over on the Hill, if I hadn't learned in the service, the importance of the Civil Service, because, if nothing else, the Civil Service, is very actively employed—and they all, as I learned when I worked for Senator Tower, they all know how to write letters to their Congressman. And they are a very important part, because while the military is important, he cannot operate without the Civil Service. And on Guam, we have a total of 6,000 Civil Service employees, 5,800 of which are local hires on the island. And in 1984, our civilian payroll for the Department of Defense, not just Navy, was $120 million, of which $3.3 million was Federal income tax withholding that reverted to the Government of Guam and $14.5 million was Guam income tax that we withheld from payrolls.

So again as I said, both military and civilian, we have a large financial investment in Guam, and we have a large strategic investment, and what I've told people wherever I go, whether it's Nevada or Guam or whatever military construction, we're neighbors. Sometimes we in the military tend to look at our bases as isolated islands, but they are not. We are neighbors with the people who live around us. It is their land that we're using, one way or

another, and we have to maintain a good neighbor relationship, and it requires give and take on both sides. And I want to make sure that we do our part in that partnership.

Delegate BLAZ. That applies to Long Beach as well?

Mr. ARNY. Oh, yes, sir, definitely. [Laughter.]

Representative LUNGREN. I just want to say, Delegate Blaz, I think you can take Mr. Arny at his word. I think he will work at it. He can't guarantee the result, in the give and take, sometimes I think Long Beach has given more than it has taken, and we have differences of agreement on that, but he's always sat down to tell me about it. I've found him to be very honest and forthright in trying to work out balances as far as area is concerned. So I am pleased to see the attitude expressed with respect to Guam itself.

Thank you very much for appearing, all three of you. I hope you make your next appointment. Thank you for testifying today.

Mr. ARNY. Thank you, Mr. Vice Chairman.

Vice Admiral HUGHES. Thank you.

Representative LUNGREN. Now I would ask to proceed to the table the Honorable Edward Reyes, Lieutenant Governor of Guam and Ms. Eloise Baza, president of the Guam Chamber of Commerce, to continue our discussion on the subject entitled "Guam's Proposed Commonwealth Act—Its Effect on Guam's Economic Growth."

If someone would please close that door, I would appreciate it. Half the Navy contingent on Guam just left us. I can see the economic impact it has on the territory. [Laughter.]

Mr. Lieutenant Governor, we welcome you to the proceedings, and Ms. Baza, we welcome you as well. And Mr. Lieutenant Governor, we'd be happy to have you testify. I have a copy of your prepared statement, so you may proceed as you wish.

STATEMENT OF HON. EDWARD D. REYES, LIEUTENANT GOVERNOR, TERRITORY OF GUAM, ON BEHALF OF HON. RICARDO J. BORDALLO, GOVERNOR

Mr. REYES. Thank you, Mr. Vice Chairman, again I want to say that I am very pleased to be here this afternoon to present our views concerning certain aspects of our economic endeavors on Guam, more particularly, the Commonwealth Act. And on behalf of the Governor and our people back home, I want to thank you, and also Congressman—General Blaz for this opportunity, you know, allowing us to come before you.

Before I start, let me say at the outset, that the constitution of Guam, which is what we call the Organic Act, of course, was written off island back here in Washington and implemented in Guam in 1950. And of course, the Organic Act has done very well for the people of the territory, but we believe that it is time for a change, more specifically, to allow the people of Guam to write its own constitution.

So with that preamble, I will focus primarily on the economic aspects of the Draft Commonwealth Act. But I wish to note that the draft is especially being revised by the Guam Common Commission on Self-Determination. So the final act which we expect to have

within a few months, hopefully, not too much longer than that, may vary from the present version.

Guam has been a strategic American military installation since the end of World War II. Throughout the century and particularly since the Second World War, military requirements have dominated the island's development. The Federal Government now owns one-third of the territory's 215 square miles, as alluded to by the Navy folks earlier.

While 20 percent of Guam's 110,000 residents are United States military personnel or their dependents or Federal civil service, in addition, 20 percent of the civilian labor force in Guam are Federal civil employees. Until 1963, the island was closed to the outside world under the auspices of a military security measure which prevented the free transport of goods and services to and from the island.

In 1982, with a total of gross receipts from the island of slightly greater than $1 billion for Guam's entire economy, approximately 50 percent of the reported goods gross receipts came directly from the United States military through its budget expenditures on Guam.

Since 1963, in an effort to increase the standard of living and enhance the development of the island, the Federal Government has provided Guam with development support. Through grants and loans the United States has built housing infrastructure and underwritten the establishment of the more sophisticated and elaborate local government in western Pacific. More than 50 percent of all workers are not employed by the Federal territorial government compared with about 15 percent right here in the U.S. mainland.

In addition, a high proportion of those employed in the private sector are employed in providing goods and services for the island's military bases or the local government. Only 3 percent of the work force are employed in manufacturing. Not surprisingly, the public sector has tended to be viewed by the Guamanian government and population as the principal hope for economic development and the avenue for opportunity for the educated. This is not to say that Guamanians would not participate in the private sector, if the rewards were attainable.

The majority of the businesses on Guam are locally owned. Guamanians and not foreign investors have been the force behind the island's fledgling private economy.

A continued dependency upon public sector income portends an uncertain future for the island's economy. The United States is no longer willing to subsidize the local economy, as it has in the past. Guam's population has simply grown too large for the United States to afford the level of per capita expenditures it has previously been willing to undertake and underwrite. Already, the per capita Federal benefits provided by the United States on Guam are far larger than what is available to citizens on the mainland.

Both the Federal and local government wish to reduce the role of the public sector in supporting Guam's economy. Unfortunately, growth within the local government has far exceeded the ability of the local economy to support it. The Federal Government, currently the primary source of capital for fueling economic expansion on the Island, is demanding greatly responsibility for the collection of

local revenues and is anxious for the island to assume a greater role in financing its own development.

Although past Federal activity is in large part the cause of this economic dependency upon Federal subsidy, it is clear that the local economy must be developed to bear greater responsibility in financing its future development.

So far, however, Guam's political and economic relationship with the United States has, in many ways diminished the potential of the island's economy as a center for trade and commerce and has contributed to the island's costly dependency.

By limiting Guam's potential as a key business center, successive administrations in Washington have denied this obvious forward base on American soil to U.S. companies seeking to penetrate the Asian market. Equally they have worked to prevent Asian firms from seeking access to American markets. Most frustrating is the fact that these actions have occurred in a disjointed fashion and without the guidance of a current Federal development policy. Washington has created a patchwork of Federal laws and regulations, some helpful, many obstructive to both private enterprise and public infrastructural development. Time and time again economic development projects on Guam are stymied because of regulatory action taken to protect the special interests in the United States.

It was in the light of these imperatives to change that the people of Guam voted in 1982, Mr. Vice Chairman, to seek a commonwealth status within the U.S. Federal system. The voters of Guam believed that statehood was not yet feasible as a goal. Guam is still politically separate from its cultural and geographic twin, the nearby Commonwealth of the Northern Marianas. Only if these two small entities, Guam and the Northern Marianas, which form a natural island group, such as Hawaii did, join together, could statehood become a distant possibility. And to join together, they must be coequal commonwealths, whereby both benefit from a merger.

I stress this point, because you may hear advocates for statehood for Guam, in place of commonwealth. While many of us may desire statehood, the mandate of the people of Guam to its elected leaders in the 1982 vote was for commonwealth. And it is commonwealth we seek as a kind of interim status, not statehood, at this particular point in time.

The elected leaders of Guam, in both the executive and legislative branches, believed that the proposed commonwealth agreement provides the best hope to rectify the past inconsistencies in the U.S. economic policy toward Guam and to establish a fundamental and coherent economic relationship designed to take maximum advantage of Guam's development potential.

The Commonwealth Act is directed at creating an economic environment that would foster and encourage free enterprise through retaining the essence of Federal laws and regulations we know to be beneficial and eliminating those known to be harmful.

The act's economic, as well as political theme, is that policy for Guam should be determined locally. Only those policies which affect national security should be made solely by the United States. It is believed that through relaxing Federal regulations and estab-

lishing a coordinated set of complementary objectives for Federal relations with the Commonwealth of Guam, can a business and economic climate be created which would stimulate the local economy and allow it to flourish at its full potential.

How does the Commonwealth Act address these economic issues? It specifically redefines authority for economic policy matters, such as trade and commerce, employment and labor, immigration and air transportation, as greater local authority is granted over these economic matters, the private sector will see the rules of business change, so that the island can capitalize on local opportunities.

The tax provisions of the Draft Act are not yet final, owing to changes at the congressional level being proposed at present and which were discussed by an earlier panel today. The Draft Act defines a new trade relationship with the United States through establishment of a free trade area which will be essentially an expansion of current tariff preferences granted by the United States.

The commonwealth would continue as a duty free port outside the United States custom territory, but also afford Guam-sourced trade the protection of the United States status. This will allow trade to flow between Guam and the United States free of import duties and tariffs.

The existing general system of preference, which grants favorable treatment to Guam exports, is retained, while most of the advantages of headnote 3A, which now generally permit goods manufactured or produced on Guam to enter the United States free or at reduced duty rates, would be overridden. Trade incentives to promote the local economy have been severely diluted in the past. Guam has been included in quotas established to protect the United States textile manufacturers from increasing foreign imports. This has effectively stopped the development of any textile industry on Guam and limited current production.

The Commonwealth Act proposes to place Guam outside the United States customs territory with respect to foreign commerce, and inside with respect to commerce and trade with the United States. All import and export regulations and tariffs would be determined under the laws of Guam and would be administered jointly. Inspections would take place on Guam under the direction of Federal customs officials, making further inspection upon arrival in the United States unnecessary.

The liberalization of headnote 3A's local content requirements would certify as "products of Guam," those articles which would contain at least 30 percent value added here. This value added has been defined as all payments subject to local taxation, including all costs of production and distribution, such as labor, fringe benefits, engineering, depreciation, profits and taxes added to the value of products manufactured, processed or assembled here.

A joint United States-Guam administration program could issue "made in Guam" certificates for locally produced goods, in order to prevent use of Guam as a transshipment point to defeat United States tariffs and to guarantee that Guam receives an appropriate portion of the economic activity that these operations generate.

The Commonwealth Act retains the United States labor laws but permits Guam to amend them as the legislature deems appropriate, so that the commonwealth will have jurisdiction to reject Fed-

eral changes in statute that are considered harmful locally. An example might be the federally determined prevailing wage rates for the local construction industry.

What is seen to evolve from this type of approach is a set of labor laws that reflect Guam's unique position in the Pacific Basin, while maintaining United States norms. Neither the right to collective bargaining nor Federal safety standards are diluted. This then insures labor's participation in the creation of commonwealth labor laws and implies that they should apply equally to all residents.

Other proposals in the Commonwealth Act would give local authorities control over entry of aliens. This would permit local authorities to grant Guam-only visas, one example. Presumably tourists, particularly Japanese, will find Guam-only visas much easier to obtain than the United States vases, thus encouraging travel to Guam.

Guamanian authority over immigration is also, indeed, intended, rather, to control population growth. The Commonwealth proposal seeks coordination with the military and the U.S. foreign policy to prevent pressing the local infrastructure beyond reasonable limits.

The key to the development of Guam's economy is air transportation. some level of service to Guam is currently assured through regulation by the Department of Transportation and Federal Aviation Administration. While this insures continued United States-Guam service, foreign carriers operate under restriction that often preclude their service to Guam, particularly as an intermediate stopping point on flights to the United States.

The Draft Commonwealth Act continues the Federal requirement that minimum air service, essential air service be provided to Guam. In addition, however, local authorities will be permitted to negotiate landing rights with other foreign carriers who may want to use the Commonwealth as a transshipment point on flights to and from the United States, bringing obvious benefits in the form of additional passenger and freight capacity without harm to the United States international or domestic carriers.

Overall, the proposals in the Draft Commonwealth Act for Guam are bold and innovative, in comparison with traditional United States Federal policies toward territory. We clearly need such innovations, if we, on Guam, are to continue serving the United States national interest in the rapidly developing crucible of Asia and the Pacific. Only by moving from governmental dependency to a self-determined and eventually self-sustaining Commonwealth, can our island fulfill its potential as part of the American nation.

Again, Mr. Vice Chairman, Delegate Blaz, I thank you for the opportunity to appear before you. That concludes my statement, and I will be happy to respond to questions you may have, if I can.

Representative LUNGREN. Thank you very much, Mr. Lieutenant Governor. I would like to have Ms. Eloise Baza make her statement first, since we are on the same subject, then address questions to both of you.

Ms. Baza.

STATEMENT OF ELOISE R. BAZA, PRESIDENT, GUAM CHAMBER OF COMMERCE

Ms. BAZA. Mr. Vice Chairman, Delegate Blaz, on behalf of the Guam Chamber of Commerce, I would like to comment very briefly on Guam's Commonwealth Act.

Guam's 1982 plebiscite vote to pursue Commonwealth status with the United States reflected the people of Guam's desire to retain our strong political ties with the United States, while recognizing the need for greater self-government by the territory, thereby granting Guam greater latitude in economic areas.

Since the drafting process for the Commonwealth Act is presently ongoing, it would be premature to discuss the merits of its provisions. It is, however, important to point out that the major changes being sought involve the lifting of barriers to Guam's economic progress. Some of these concerns are going to be, have been or will be fully treated before this subcommittee today:

Tax reform, which was addressed this morning, visa waiver for visitors, temporary alien labor, the large Federal land holdings and subsequently selected return to the local government and partial exemptions from the Merchant Marine Act of 1920, better known as the Jones Act.

In each instance, waivers or exemptions from existing national laws are sought, because Guam's unique geographical location has made the application of such laws inimical to Guam's pursuit of economic development, based on private enterprise. Guam's present economy is too dependent on the public sector.

Guam's attempts to address these development constraints in the past have been on an ad hoc basis. The forthcoming discussions from the Commonwealth Act draft between the Federal and local governments will provide a forum where these various issues can be discussed in a more comprehensive fashion.

While the final form of the Federal Territorial Relations Act will have to wait until discussions between our respective negotiators are completed, and the Act itself receives ratification by the people of Guam and the U.S. Congress, it is not too soon to address some of the specific constraints inhibiting Guam's pursuit of greater economic self-fulfillment. Today's discussion will hopefully bring us a few steps closer toward the realization of Guam's economic development potential.

Thank you, Congressman. I would be happy to answer any questions you may have.

[The prepared statement of Ms. Baza follows:]

PREPARED STATEMENT OF ELOISE R. BAZA

Mr. Chairman and Members of this Committee, I am Eloise R. Baza, President of the Guam Chamber of Commerce. On behalf of the Chamber's membership, I would like to offer our views on Guam's Commonwealth Act.

World War II and subsequent international and regional events have begun to influence the Territory of Guam. The political awakenings and pursuits of their respective identities among the Micronesian Islanders are bearing some impact on the people of Guam. The political relationship established by the Organic Act of 1950 is being evaluated. The 1982 plebiscite vote to pursue a Commonwealth status reflected the people's wish for redefining the political relationship between Guam and the United States. To most, the plebiscite results showed that Guam wants to retain its strong political ties with the United States while recognizing the need for greater self-government by the Territory.

The Commission on Self-Determination, established by Public Law 17-42 in 1984, is charged with the drafting of a federal-territorial relations act. This drafting process is presently on-going. The hope is that this process will eventually result in framing federal-territorial relations which reaffirms Guam's aspirations for closer political ties with the United States, while granting the Territory greater latitude in economic areas.

While it would be premature to comment on the specific merits of the preliminary Commonwealth Act draft provisions it is important to point out that the biggest changes being sought involve the lifting of economic development constraints. Some of these issues will be more fully treated in other papers being presented before this Subcommittee. These include tax reform, visa waiver for visitors and ship crews, temporary alien labor, the large federal landholdings and subsequent selected return to the local government and partial exemptions from the Jones Act. In each instance, waivers or exemptions from existing national laws are sought, because Guam's unique geographic location has made the application of such laws inimical to Guam's pursuit of economic development based on private enterprises. Guam's present economy is too dependent on the public sector and has been fueled in a large part by military activities and Federal grants.

Guam's attempts to address these development constraints in the past have been on an ad hoc basis. The forthcoming discussions on the Commonwealth Act draft between the federal and local governments will

provide a forum where these various issues can be discussed in a more comprehensive fashion. While the final form of the federal-territorial relations act will have to wait until discussions between our respective negotiators are completed and the act itself receives ratification by the people of Guam and the United States Congress, it is not too soon to address some of the specific constraints inhibiting Guam's pursuit of greater economic self-fulfillment. Today's discussion will hopefully bring us a few steps closer toward the realization of Guam's economic development potential.

Representative LUNGREN. Thank you very much.

One of the things that becomes clear from the testimony is that you feel that certain national standards that have been established, pursuant to Federal legislation don't take into consideration the unique aspects of Guam. As a Californian, I can tell you that we often feel that we are left out in Washington, and they seem to think that we are some strange people out there on the Pacific Ocean. So I am very sympathetic to what you are talking about.

I must confess, as a member of Congress, I don't have that much knowledge nor do most Members of Congress have that much real detailed knowledge about the Territory of Guam. And so this testimony is particularly helpful for me.

Mr. Lieutenant Governor, you mentioned the Headnote 3A program. How precisely would the Commonwealth Act now under consideration—I realize it could be revised by the time the statements we make today are printed up in the record, but as presently constituted, how would the Commonwealth Act propose that the administration of the headnote 3A program be different from its current enforcement, and is it that important to Guam?

Mr. REYES. It is very important, because the Headnote 3A, of course, by now is—especially language in the statute—has been helping Guam. This is a program where we can bring in raw materials from foreign countries and put it together in Guam, add value to it, some 51 percent, and ship it to the United States without restriction.

We are hoping that with the Commonwealth Act when it goes through that—and approved by the Congress—that restrictions will be lifted overall and would be considered domestic market, in terms of exporting goods to the U.S. mainland.

It is very crucial to the island's economy. Right now we have only one manufacturing entity in Guam. It is sweaters. And we're hopeful that with the Commonwealth Act that we can get away from a lot of the things that are being contemplated now. I understand there is a bill before the Senate to, you know, treat Guam rather differently and restrict exportation of goods to the United States in the textile area. I believe that is due Thursday—I am due to testify before that subcommittee of the Senate.

So this is an area that we're really very concerned about that it go through as allowing Guam to participate in the U.S. market.

Representative LUNGREN. I guess one of the reasons you continue to be concerned about headnote 3A is because oftentimes when "protectionist" legislation rears its head in Congress some refer to headnote 3A as one of the loopholes that we have to close.

Mr. REYES. Yes.

Representative LUNGREN. I guess you would also like if you had commonwealth status and ability to make sure that if changes were made, it would be change with the full cooperation and consultation of the people of Guam, as opposed to Congress without precisely understanding the differences that exist on Guam, closing it because of its perceived difficulty with domestic industries.

See, it kind of—I guess it doesn't surprise me, but I was struck by the fact that when Delegate Blaz had an amendment on the floor not too long ago, where he was trying to get, I guess I'd call it equal treatment of U.S. servicemen who served on Guam, equal

with those who served in Europe, in terms of their ability to make certain purchases, that there was a lack of appreciation by many of the people who voted on the floor of the House, that we're talking about American citizens on Guam.

Mr. REYES. That's right.

Representative LUNGREN. And in some ways, as you say, it surprises me that Guam is listed as a foreign country. In other ways, I don't think there is a full appreciation of what we're talking about on the floor of Congress.

We've got a lot of things to think about, and honestly, a lot of Members have not had a chance to really think about Guam and the people live there.

Mr. REYES. This is precisely why the import of this kind of dialog, you know, is to share views with the folks in the Congress about Guam. And we appreciate Delegate Blaz' effort in this and just making the people aware, you know, who we are, what we are, and what we're all about.

Representative LUNGREN. You see, my problem is, I can't ignore Delegate Blaz. You see, we both went to Notre Dame. That kind of creates a bond. And then it just happened my administrative assistant is a retired Marine Corps colonel. And who do you suppose was the last person he worked under before he retired? [Laughter.]

So it's almost a command performance when he calls, at least for my administrative assistant.

Mr. Lieutenant Governor, you mentioned about current laws restricting foreign air carriers from servicing Guam.

In what way is that restriction in existence and how would it be changed under the proposed Commonwealth Act?

Mr. REYES. You might be familiar with the cabotage laws that prevents foreign carriers from, you know, landing at several U.S. places. That law, of course, prohibits, you know, like JAL, the Japan Airline, landing in Guam and proceeding on to Honolulu or Los Angeles. We hope to do something about that in the Commonwealth, to see if we could relax some of those restrictions, because it is obvious that if a JAL 747 is carrying some 250 passengers to Los Angeles, for example, and stop in Guam, maybe some of them will care to remain overnight and spend a few dollars before proceeding on.

Representative LUNGREN. We could even get some stretch DC-10's that are made in my district to stop there.

Mr. REYES. That's right. [Laughter.]

Representative LUNGREN. We enjoy that as well.

Ms. Baza, I take it, not only from your personal statement but because of the fact that you represent the organization that you do, that you view the Commonwealth approach as something which proves more attractive site. That is, Guam would therefore prove a more attractive site for location of business and industry by American and Asian investors; is that correct?

Ms. BAZA. Yes.

Representative LUNGREN. And could you tell us, in some ways, how you envision that?

Ms. BAZA. The Commonwealth relationship with the United States which was the desire of the people of Guam during the plebiscite in 1982, will allow Guam to, through the Federal Territorial

Relations Act, remove some of the hindrances to our economic growth. We talked—this afternoon later on during the panel, we will be addressing specifically impediments to fisheries development, the partial exemption from the Jones Act to allow the carriage of fish from Guam on foreign vessels to carry such fish to Puerto Rico and other points in the United States. Vessel documentation laws. We are going to be requesting that those be repealed, so that we can get a locally based fisheries industry developed, as will the alien crew aboard U.S. fishing vessels issue.

These areas, or these items which certainly assist in what will allow Guam to expand its economic base or increase its potential in these areas, which are within its reach. A Commonwealth relationship provides us with the opportunity to have greater latitude in economic areas, specifically for us to remove or be afforded the mechanism to remove some of the hindrances to our economic growth.

Representative LUNGREN. I guess we can all appreciate what Mr. Montoya said earlier, when he indicated that some of the things proposed are going to be taking on a number of interests, and I can understand that. I am sure that there were feelings on both sides as to why some of those things may be in there at the present time.

I just hope that at some point people who are viewing it from the standpoint of Guamanians recognize that there are going to be some very, very difficult decisions to be made on the floor of the Congress. On the other side, I hope that the Members of Congress, when viewing whatever document is finally presented to them and any suggested amendments thereto at some point in time, would recognize what you have presented, which is that Guam is so heavily dependent on Government—I wouldn't call it largesse in some cases, because it is doing work that is necessary, presently, for the Navy, and so forth, but if we intend to wean the employment population away from that reliance, we are going to have to make some changes, which make economic private activity, not only inviting in Guam, but also to foster that.

So I guess we've got to look at it from both sides. I guess, as Mr. Arny said a little bit earlier with respect to another question, there is going to have to be give and take on both sides. And I think that is one of the questions that Members of Congress have when they deal with a question of Commonwealth and when they deal with a question of American citizens in a territory. And when initially, they are hit with the impact of what percentage are working for the Government, there is a question how do you change that? And I think the way that you are presenting it is a very good one. Suggesting that you are asking for changes not just for the changes, but because that will, in fact, help Guam to develop a private industrial base or financial base that it doesn't have now, but which evidently has got to be the answer, if you are going to be a successful enterprise in an economic sense in the future.

Delegate Blaz?

Delegate BLAZ. You know, Congressman, I think by your candid observation that many of the Members of Congress do not fully appreciate the problems of the American territories. By that statement, I think you have more than justified the hearing here, because what we are attempting to do here is to put in one package

the views of the leadership with respect to the enormous difficulty faced by Guam on the territories, when it is trying to do—ironically, when it is trying to be self-sufficient.

One would think that there would be a program that would say, "Hey, listen, guys, in order to lessen your dependence on the motherland, here are some of the things we just found and discovered that these are the things we can help you. For instance, instead of four daily flights to Guam, we are going to make it seven daily flights to Guam." I mean, there is great potential for assistance to the territories. One would think that he'd make a living just doing that.

Representative LUNGREN. They do that in the Marine Corps. I am not sure we do it here. [Laughter.]

Delegate BLAZ. But let me ask one question, please. It is my favorite question. Governor Reyes, if you had the ability to make one change right now, that—this afternoon, you sign a piece of paper—"I hereby decree that the following will happen with respect to the territory of Guam," what would that be?

Mr. REYES. More specifically, I'd say—I alluded to earlier, this Commonwealth initiative is so very critical, even to Mr. Montoya's—Secretary Montoya's three-legged stool on economic development—I think it is absolutely imperative that the Commonwealth go through. I think Guam is going to continue to just crawl in future years. I just don't see how Guam could fully develop itself without local autonomy, making determination for economic development.

I think it is absolutely imperative that we go through with it in some form, local flexibility, some kind of a local autonomy within the contraints, of course, of the interest groups within the United States, keeping in mind all of those interest groups, and within the constraints of national security, I think that we could do something like that.

It would be so mutually beneficial to both entities, the people of this country and the people of Guam, because Guam, of course, as I indicated earlier would desire a closer relationship with the United States. We are part of it, and we want to come closer, and I think therein lies that that catalyst to do that, is to allow Guam to proceed, move on, and I think we can do that with the Commonwealth.

Delegate BLAZ. Thank you, sir. That's a great answer.

How about you, Ms. Baza?

Ms. BAZA. I gave you my answer this morning, Congressman.

Delegate BLAZ. I want you to give it to me this afternoon. [Laughter.]

Ms. BAZA. Tax reform. [Laughter.]

Delegate BLAZ. OK. Thank you.

Representative LUNGREN. Hey, I think you wrote the President's speech. [Laughter.] He could use you.

Well, thank you very much. I appreciate your testimony.

Ms. BAZA. Thank you, gentlemen.

Representative LUNGREN. It's been very helpful to me, as a Member of Congress who is trying to learn more about Guam and its economic problems, and as they relate to particular political and governmental changes. Thank you.

Mr. REYES. Thank you, Mr. Vice Chairman, Delegate Blaz.

Representative LUNGREN. Now to return to the question of the impact of Federal land and contracting policy on Guam's economic development, I would ask Mr. Philip J. Flores, president of the Guam Savings & Loan, who was recently elected, I guess, very recently elected, chairman of the board of Guam's Chamber of Commerce. I can even throw in a partisan remark here, Guam's Republican National Committeeman.

Maybe that's why everybody's leaving.

And the other half of the Navy personnel Civil Service just left, I think. No.

Mr. Flores, I have a copy of your prepared statement, and it will be made a part of the record, and I invite you to proceed as you wish.

STATEMENT OF PHILIP J. FLORES, CHAIRMAN OF THE BOARD, GUAM CHAMBER OF COMMERCE

Mr. FLORES. Thank you, Mr. Vice Chairman, Delegate Blaz. Thank you for giving us this opportunity to present our views concerning the return of surplus Federal land to the Government of Guam and repeal of the Brooks amendment.

As we just heard from Assistant Secretary Arny, the return of Federal land on Guam has been a longstanding and sensitive issue to the United States Government and the Government of Guam.

The experience of World War II and now the more recent events concerning the security of America in Asia and the western Pacific has allowed the Federal Government to recognize Guam's strategic importance to continued security of all of America, and since the lifting of military security clearance for Guam in 1962, the civilian government on Guam, itself in existence since only 1951, has faced particular growth problems associated with any newly emerging political entity which strengthens the need for our further local economic expansion. Fundamental to the furthering of the interest of both of our governments is the optimum utilization of Guam's land, which measures only 212 miles in total square miles.

It is this issue I would like to address first, Mr. Vice Chairman.

In the last 10 years, communication has been established to discuss the return of surplus Federal land. Though differences have existed, these issues seem close to being resolved. We believe the final resolution lies in the passage of H.R. 2884, authorized by our Washington Delegate, Congressman Blaz.

We on Guam are highly sensitive to the national security considerations which impact upon the disposal of Federal land. We agree that no land should be returned for which a continued need exists to support U.S. military presence in the western Pacific. We seek only the return of land which has been identified and determined by the U.S. Navy as surplus Federal landholdings on Guam.

Earlier the Assistant Secretary referred to a 1977 Guam Land Use Plan that was authored by the U.S. Navy to ensure the optimal utilization of Federal land on Guam, which comprises approximately one-third of our total area. Of this land, 5,180 acres was identified in 1977 as surplus land. Since the completion of the Navy Land Use Plan, 1,439 acres have been turned over, including 927

acres located at Cabras Island, within the northern portion of Apra Harbor, which transfer was burdened with the restrictions of the Brooks amendment.

In the meantime, the responsibilities of the Government of Guam to the residents of our territory have increased significantly. As a result, the return of Federal surplus land has become extremely vital in meeting the Government of Guam's civic responsibilities to provide commercial, industrial, and residential facilities necessary to sustain and further induce island growth.

Public education, health, safety, transportation, essential power, water and communication utilities are burdened by civilian population growth. Infrastructure development has become a significant factor to sustain the ongoing visitor industry and a population growth prompted by the home porting of U.S. naval vessels on Guam. In short, our island is in need of the use of the identified surplus Federal land.

Unlike other mainland jurisdictions, the Government of Guam has made optimum use of almost every acre that has been since returned to us by the Federal Government. Low-cost housing, public sewage and water lines, access roads and an international airport are but a few examples of how this land has been used. More land remains essentially needed to sustain increased local demand for agriculture and acquaculture farming products, economic development, and a number of public uses to support public education, public health, transportation, parks, and recreation uses and still more housing.

Given our limited resources, especially Guam's small land area, declining Federal assistance and the major civic responsibilities of our Government, we ask that surplus Federal land be returned to the Government of Guam at no cost, as called for in H.R. 2884, to allow ourselves the ability to respond to our own economic and social needs. Such an opportunity is consistent with the Federal Government's objective to return to local governments the opportunities to address their own problems at a local level.

On the other hand, if the Federal Government insists upon the return of this land at fair market value, the Government of Guam will not be able to buy this land. As a result, this land will not be purchased and no economic activity will occur. No benefits therefore to either the Federal Government or the Government of Guam will be achieved in terms of revenues.

However, with the return of this land at no cost to the Government of Guam, economic development will follow, thereby increasing the Covernment of Guam's tax revenue base and lessening Guam's reliance on Federal funds. What we propose, Mr. Chairman, actually also helps to reduce the Federal deficit.

We would now like to address the repeal of the Brooks amendment, as mentioned in H.R. 2884.

The Brooks amendment places prohibitive restrictions on the development of the 927 acres returned to the government of Guam in Apra Harbor, our only seaport, by requiring that at least 70 percent of all land revenues received by the government of Guam from the development of the land be paid back to the U.S. Treasury.

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The amendment made the prospect for locally initiated development of this land unattractive and unrealistic. As a result, there has been no economic activity on any of the 927 acres already transferred to the government of Guam—economic activity which could otherwise provide investment, jobs, and an expanded tax base.

Delegate Blaz' bill addresses both the return of surplus land to the government of Guam and the removal of the restrictions and impediments to development imposed by the Brooks amendment.

The repeal of the Brooks amendment has been given the support of the Federal department most directly affected by its repeal, the U.S. Navy. The Navy, as mandated in Public Law 98-454, performed a study for the purpose of establishing a fixed standard percentage of monetary consideration that would be received by the government of Guam in preparing surplus Federal land for disposal.

The study noted that only minimal development could be accomplished by the government of Guam with the 30 percent limitations of the Brooks amendment. In summarizing, the chief appraiser considered the repeal of the Brooks amendment a reasonable and proper alternative for the return of this land at no cost to the government of Guam on the basis of the following:

First, Apra Harbor, as Guam's only seaport, is essential to the territory's economic development.

Second, it has been the standard practice to return Apra Harbor land to the government of Guam at no cost, and I quote:

> Had there been a nonmilitary commercial port on federal land at the time of the Organic Act, it would have been transferred to the Government of Guam at no cost.

Third, the repeal would eliminate Federal interference in the business decisions of the government of Guam.

Fourth, management responsibility of the Federal Government under the Brooks amendment would be too costly in the long run.

Fifth, the 30-percent limitation would provide only minimal devlopment.

And, sixth, the Brooks amendment further complicates other General Services Administration land transfers with the government of Guam.

We understand that with the repeal of this amendment there may be some concerns on the part of the U.S. Government regarding the prudent use of these funds that would otherwise be paid to the U.S. Treasury. Should these concerns take any form of amendment to H.R. 2884, we suggest the following:

The creation of a Cabras Island Development Fund that would be financed by all revenues received by the government of Guam from the disposal of returned Federal lands at Cabras Island. Expenditures under the fund should be limited to economic development of the area, such as infrastructure, capital improvements, maintenance and upkeep of plant and capital structures as delineated in the Commercial Port of Guam Master Plan.

Second, all Cabras Island land returned to and revenues received therefrom by the government of Guam would be managed and expended by the board of directors of the port authority in such

manner that is consistent with standard port facility management policies.

Third, the government of Guam, through the board of directors of the port authority, would be authorize to use such land for the purpose of obtaining the financial resources necessary for area economic development as described in the foregoing section. Expenditures under this fund would be subject to the federal oversight and periodic audit requirements as the U.S. Congress deems fit.

In closing, Mr. Vice Chairman, we are asking for the opportunity to be more economically self-supporting on Guam by requesting the Federal Government to return to the government of Guam that land that they have deemed to be surplus; that is, land not needed by the Federal Government yet needed quite urgently by Guam. We also ask for the repeal of a law which makes investment in economic activity on this otherwise fallow land impossible.

With the above, we the people of Guam, who have shown ourselves time and time again to be among the Nation's most patriotic, can show once more a true spirit of Americana by expanding our own local tax base, reducing our need for continuing Federal handouts, thereby, together with the Federal Government, helping to eliminate one of the biggest problems facing the Federal Government today, the Federal deficit.

Thank you for your time, Mr. Vice Chairman. I am available for questions. We urge your quick and favorable consideration of H.R. 2884.

[The prepared statement of Mr. Flores follows:]

PREPARED STATEMENT OF PHILIP J. FLORES

Mr. Chairman and Members of this Committee, I am Philip J. Flores, Chairman of the Board of the Guam Chamber of Commerce and President and Chairman of the Board of Guam Savings and Loan Association. On behalf of the Chamber's membership, I welcome this opportunity to present our views concerning the return of federal land to the Government of Guam and the repeal of the "Brooks Amendment."

The return of federal land on Guam has been a longstanding and sensitive issue to the U. S. Government and the Government of Guam. The experience of World War II allowed the Federal government to recognize Guam's strategic importance to the continued security of the Western Pacific. And since the lifting of military security clearance for Guam in 1962, the civilian government on Guam, only in existence since 1951, has faced particular growth problems associated with any newly emerging political entity which strengthen the need for further local economic expansion. Fundamental to furthering the interests of both governments is the optimum utilization of Guam's land which measures 212 square miles in total.

It is this issue I wish to address first.

In the last ten years, communication has been established between both governments to discuss the return of "surplus" federal land. Though differences have existed, these issues are close to being resolved. We believe the final solution lies in the passage of H. R. 2884, authored by our Washington Delegate, Congressman Ben Blaz.

We on Guam are highly sensitive to the national security considerations which impact upon the disposal of federal land. We agree that no land should be returned for which a continued need exists to support U. S. military presence in the Western Pacific. We seek only the return of land which has been identified and documented by the U. S. Navy as "surplus" federal landholdings on Guam. The document to which we are referring is the 1977 Guam Land Use Plan that was authored by the U. S. Navy to ensure the optimal utilization of federal land on Guam (which comprises approximately 44,500 acres or one-third of our total land mass). Of this land, 5,180 acres was identified as "surplus" federal land. Since the completion of the Naval Land Use Plan, only 1,439 acres of the identified 5,180 have actually been returned including 927 acres located at Cabras Island, within the northern portion of Apra Harbor which transfer was burdened with the restrictions of the Brooks Amendment.

Meanwhile the responsibilities of the Government of Guam to the residents of our Territory have increased significantly. As a result, the return of federal "surplus" land has become extremely vital in meeting the Government of Guam's civic responsibility to provide commercial, industrial and residential facilities necessary to sustain and further induce island growth.

Public education, health, safety, transportation, essential power, water and communication utilities are burdened by civilian population growth. Infrastructural development has become a significant factor to sustain the needs of our booming

visitor industry and population growth prompted by the increased homeporting of U. S. Naval ships on Guam. In short, our island is in need of the use of the identified "surplus" federal land.

Unlike other mainland jurisdictions, the Government of Guam has made optimum use of almost every acre that has since been returned by the Federal government. Low cost housing, public sewage and water lines, access roads and an international airport facility are but a few examples of how this land has been used. More land remains essentially needed to sustain increased local demand for agricultural and aquacultural farming products, economic development and a number of public uses to support public education, public health, transportation, parks and recreational uses and still more housing.

Given our limited resources, especially Guam's small land area, declining federal assistance and the major civic responsibilities of our Government, we ask that "surplus" federal land be returned to the Government of Guam at no cost as called for in H . R. 2884 to allow ourselves the ability to respond to our own economic and social needs. We believe such an opportunity is consistent with the Federal Government's objective to return to local governments the opportunities to address their own problems at the local level.

On the other hand, if the Federal government insists upon the return of this land at fair market value, the Government of Guam will not be able to buy this land. As a result, this land will not be purchased and no economic activity will occur. No benefits therefore to either the Federal government and the Government of Guam will be achieved in terms of revenues. However with the return of this land at no cost to the Government of Guam, economic development will follow, thereby increasing the Government of Guam's tax revenue base and lessening Guam's reliance on federal funds. What we propose Congressmen, actually helps to reduce the Federal deficit.

We would now like to address the repeal of the "Brooks Amendment" as part of H. R. 2884.

The "Brooks Amendment", places prohibitive restrictions on the development of the 927 acres returned to the Government of Guam in Apra Harbor, our only seaport, by requiring that at least 70% of all land revenues received by the Government of Guam from the development of the land be paid back to the U. S. Treasury. The amendment made the prospect for locally-initiated development of this land unattractive and unrealistic. As a result there has been no economic activity on any of the 927 acres already tranferred to the Government of Guam: economic activity, Congressmen, which could otherwise provide investment, jobs and an expanded tax base.

Congressman Blaz's Bill, H. R. 2884, addresses both the return of "surplus" land to the Government of Guam and the removal of the restrictions and impediments to development imposed by the "Brooks Amendment."

The repeal of the "Brooks Amendment" has been given the support of the federal government agency most directly affected by its repeal, the United States Navy. The United States Navy, as mandated by Public Law 98-454, performed a study for the purpose of establishing a "fixed standard percentage of monetary consideration that would be received by the Government of Guam" in preparing "surplus" federal land for disposal. The study noted that only minimal development could be accomplished by the Government of Guam with the 30% limitations of the "Brooks Amendment." In summarizing, the Chief Appraiser considered the repeal of the "Brooks Amendment" a reasonable and proper alternative for the return of this land at no cost to the Government of Guam on the basis of the following:

- Apra Harbor, as Guam's only seaport, is essential to the Territory's economic development.
- It has been the standard practice to return Apra Harbor land to the Government of Guam at no cost. "Had there been a non-military commercial port on federal land at the time of the (Organic) Act, it would have been transferred to the Government of Guam at no cost."

- The repeal would eliminate federal interference in the business decisions of the Government of Guam.
- Management responsibility of the federal government under the "Brooks Amendment" would be too costly in the long run.
- The 30% limitation would provide only minimal development.
- The "Brooks Amendment" further complicates other General Services Administration land transfers with the Government of Guam.

We understand that with the repeal of this amendment, there may be some concern on the part of the United States Government regarding the prudent use of these funds that would otherwise be paid to the United States Treasury. Should these concerns take any form of amendment to H. R. 2984, we suggest the following:

- The creation of a Cabras Island Development Fund that would be financed by all revenues received by the Government of Guam from the disposal of returned federal land at Cabras Island. Expenditures under the Fund should be limited to economic development of the area (such as infrastructure, capital improvement, maintenance and upkeep of plant and capital structures) as delineated in the "Commercial Port of Guam Masterplan, as Revised";
- All Cabras Island land returned to, and revenues received therefrom by the Government of Guam would be managed and expended by the Board of Directors of the Port Authority of Guam, in such manner that is consistent with standard port facility management practice;
- The Government of Guam, through the Board of Directors of the Port Authority, would be authorized to use such land for the purpose of

obtaining the financial resources necessary for area economic development as described in the foregoing section; Expenditures under this Fund would be subject to federal oversight and periodic audit requirements as the United States Congress deems fit.

In closing, we are asking for the opportunity to be more economically self-supporting on Guam by requesting the Federal government to return to the Government of Guam that land that they have deemed to be "surplus", that is, land not needed by the Federal government, yet needed quite urgently by Guam. We also ask for the repeal of a law which makes investment in economic activity on this otherwise fallow land impossible. With the above, we the people of Guam who have shown ourselves time and time again to be among the Nation's most patriotic, can show once more a true spirit of Americana by expanding our own local tax base, reducing our need for continuing Federal handouts, thereby together with the Federal government helping to eliminate one of the biggest problems facing the Federal government today, the Federal deficit.

Thank you for your time. Please give H. R. 2884 your full and favorable consideration.

Representative LUNGREN. Thank you very much, Mr. Flores, and your statement about us dealing with the Federal deficit is one that strikes a chord with most Members of Congress right now.

Mr. FLORES. Thank you.

Representative LUNGREN. And I suppose the next question they would ask is: can you tell us why the local government would be unable for the return of "excess Federal property" at the fair market value?

Mr. FLORES. I think we have to put things in perspective, Congressman. Our island is a small island, again 212 square miles. Our civilian government has been in existence only since 1951. Prior to that we were governed by the U.S. Navy. Even after 1951, it wasn't until 1962 that people were allowed to get off a plane on Guam without the clearance of the U.S. Navy.

What I am saying is that we are at a very young stage of our economic development. As a result, as stated earlier this morning, our per capita income on the island is about—it is lower than any of the States. It is probably 52d, 53d if you take in all the possessions.

Our Government just does not have the money to do it. We are burdened with other infrastructure development,' to put better roads in, to put better sewage lines in, to put water lines into the southern part of our island. Several months out of the year, actually, they have no water. They are rationed. We have other things to spend money on. We don't have enough money to go around.

Representative LUNGREN. I have heard that.

Mr. FLORES. I know, but ours is true.

Representative LUNGREN. I have heard that before, too. [Laughter.]

Does the government of Guam, to your knowledge, have a plan that identifies proposed uses of the Federal lands which it desires to have made available to it?

Mr. FLORES. I understand it does, Congressman, and taken into account—this was after the 1977 land use plan prepared by the U.S. Navy. Part of what we are talking about, it the Navy needs to go in there or other branches of the military needs to go in there and reevaluate which land they would like to keep and which land they would like to give over or can give up, that is perfectly fine with Guam.

The uses that have been identified before—which I can't tell you what all of them are. Obviously, we cannot use all of the land, but we can—we will have to just make do with what we have.

Understand that it was said earlier by the Assistant Secretary that the government of Guam also owns one-third of the land of Guam. The one-third, the majority of what the government of Guam owns, I wish you could come out to the island and see. You would really understand.

The majority that the government of Guam owns is in a very moutainous, rugged area in the southern part of the island. What the United States, the Federal Government, owns, is frankly all the prime property on the island—the view property, the beach property, the most beautiful property. That can be developed for housing, can be developed for schools, can be developed for recreational uses.

We are based—we are trying—it was also said that other ships are coming in, and whatever. The island appreciates and asks for more and more military—to limit more and more military activity on Guam because it does help our economy.

But it was stated earlier by the Assistant Secretary that changes are very cyclical as far as the military's economic participation on the island. We want a more diversified economy so that we can handle ourselves during that low part of the cycle, and the return of the land and the removal of the Brooks amendment will help us out also.

Representative LUNGREN. Concerning the return of certain land, are you aware of investors who have expressed an interest in developing any of the land currently held as excess property by the Federal Government?

Mr. FLORES. One of the first that comes to mind, of course, is on what we call Harmon Cliff Line, with perhaps one of the most beautiful views on the island. It is flat property. It is developable property. It has water and power to it already, and it was abandoned by the U.S. Navy, its use of it, oh, decades ago.

And from what I understand, there are people who would like to come in and build hotels there. Also, people have been—right now the tourist industry on Guam has almost flattened out, the number of visitors coming in. And it is not because Guam has become an undesirable place or less desirable place to visit. It is because we have no more hotel rooms. Our hotels are basically packed all the time.

As a result, there are two new hotels being built right now, and there is a desire to build more on the island because it is an industry that is growing throughout the Pacific. It is an industry that is growing particularly on Guam, and with some of this beautiful land returned back to the local government it then can be used for private enterprise.

Representative LUNGREN. You referred a couple of times, or more than a couple of times, to the Brooks amendment referring to 900-plus acres in a particular location and indicated that the requirement continued therein of a 70-percent return to the Federal Government makes it incapable of being developed thus far.

Is there a point at which a split between the Federal Government and the government of Guam would make it economically feasible short of having no return to the Federal Government?

Mr. FLORES. Frankly, I don't know. It the Federal Government insists on taking some of the funds back, then the Federal Government does. But that would have to be determined by an investor.

I do know that in the study done by the U.S. Navy it said that some of this land might take as much as 80 percent of revenues collected just to recover the development cost.

I understand that some of these lands are actually underwater, and it is going to take a tremendous amount of reclamation or landfill to make this land usable. We are not talking——

Representative LUNGREN. So the Federal Government gave you land that is underwater. I thought only certain people did that in the Midwest, selling land down in Florida. [Laughter.]

Mr. FLORES. Yes, they did. But it is virtually impossible—you know, if I give you a piece of property and tell you, you go ahead

and do anything you want with it but all the money you make or 70 percent of the money you make I get, that is just not fair.

And that is 70 percent of the gross money you make, not 70 percent of your profits.

Representative LUNGREN. We need a Kemp-Roth bill for that. The high rate used to be 70 percent for individual income.

Delegate Blaz.

Delegate BLAZ. No; I don't have any questions for Mr. Flores. I thought he did a fairly good job there, in English as well.

Mr. FLORES. Yes; I did that in English. [Laughter.]

I tried to stop stuttering, too.

Representative LUNGREN. Thank you very much for your testimony.

Mr. FLORES. Thank you, Mr. Vice Chairman.

Representative LUNGREN. We very much appreciate it.

Next, to discuss the same issue, the impact of Federal land and contracting policy on Guam's economic development, I would ask Mr. Bill Gibson, the executive director of Pacific Management Resource Group, and Mr. Robert Black, president of Black Construction Co., to come forward.

STATEMENT OF E.L. GIBSON, EXECUTIVE DIRECTOR, PACIFIC MANAGEMENT RESOURCE GROUP, AND THE BUILDING INDUSTRY ASSOCIATION

Mr. GIBSON. Good afternoon, Mr. Vice Chairman, Delegate Blaz, we are very grateful for the opportunity to be here with you today.

I would like to speak from the point of view of the building industry in Guam and let you know that our island is in the middle of an important building boom, but local workers, the local government, and local merchants are not realizing many of the benefits normally associated with a strong surge in construction activity.

And I have come to endorse the request—and to ask you, Mr. Vice Chairman, to support it—the request of our Congressman to have the General Accounting Office conduct a study of the impact that imported construction workers have on Guam's economy.

Guam builders, as you many know, have historically employed alien workers to do construction work because of a chronic shortage of skilled tradesmen. There is a widespread belief that local people don't like to work in construction trades, but employment figures contradict that very quickly.

Guam currently has four separate work forces—the commercial work force, the government work force—and you have heard government statistics here this afternoon—the H-2 alien worker, the H-2 being a visa classification, and the illegal aliens.

About 1,500 to 2,000 Guam citizens and permanent residents are employed in commercial construction and building maintenance jobs in Guam. The Federal Government employs nearly 1,000 civilians in blue collar trades. About 500 other local residents are employed by the local government in jobs that require construction skills. These government jobs generally offer better pay, better employment benefits, and better job security than similar jobs in the private sector.

Given the cyclical nature of the business—and lots of people don't want to work in construction on a project-to-project basis—they are looking naturally for long-term job opportunities.

Wages and benefits are usually lower in the private sector because of the cyclical nature of the business and because of the competitive nature of the industry, and because federally set wage rates for alien workers, those with the H-2 visas, tend to operate as a kind of maximum wage for local workers.

The H-2 workers come from countries where wages are low, where they do not have laws regulating the 40-hour workweek and overtime at time and a half, no EEO laws, no health and safety regulations. These workers are largely unaware of their rights when they come into Guam, but even when they discover that they are being exploited they don't complain because a complaint will get them a quick one-way ticket home.

Finally, there is the underground building network made up of an estimated 1,500 to 2,000—and these are INS figures—1,500 to 2,00 out-of-status aliens. They are called Yokois, nicknamed after a Japanese army sergeant named Shoichi Yokois, who was discovered in the jungles of Guam 27 years after the war ended. These men are in the worst of circumstances.

Most of them were stranded in Guam in the late 1970's after nearly 200 construction and allied employers were forced out of business by the U.S. Department of Labor tinkering around with wage rates—essentially is what it was. Many builders after those new wage rates were announced could not renegotiate their contracts, and so they disappeared and abandoned their workers.

These men are in the United States illegally. They do pickup construction work. They work off the books, and they get paid in cash. They get very little in the way of protection of the laws that regulate employment in our country. If they are injured on the job or if they are cheated or abused, they can't go to a Government agency for fear of being deported.

The Yokois could supplement the legal work force if Congress would consider enacting a special one-time amnesty such as was granted for our sister territory in the Virgin Islands.

That act placed some new restrictions and further importations of aliens into the Virgin Islands, but it also gave us in Guam some ideas.

If Federal and local government agencies could be required to contract out the construction and maintenance work that is now being done in-house by Government employees, the private sector work force could soon grow large enough to perform virtually all Government and commercial construction and maintenance work. Fewer alien workers would have to be imported, and that would result in fewer construction dollars being exported from Guam's struggling economy.

Our community college needs some additional Federal and local resources, help from the Bureau of Apprenticeship and Training Programs, and legislation for administrative regulations are needed to compel those who, for whatever reason, choose to employ alien workers instead of employing local apprentices and local journeymen.

Federal rules now require that apprentices be paid 80 percent of the alien worker wage, which based on the lowest alien worker wage is $6.28.

Contractors tell me that's kind of a steep price to pay for trainees, and it is seen as the chief obstruction to full employment of our apprentices, but it is only one reason why so few have been hired and trained.

If BAT, the Bureau of Apprenticeship Training, would permit initial appointment of apprentices at about 65 percent of the H-2 rate or about $5.20 an hour to start, I think we could then begin something that should have started in Guam a long, long time ago, and that is a gradual phase down and eventual phaseout of all but the rarest of imported skills.

Working with members of the building industry, the Immigration and Naturalization Service and the Federal Department of Labor could devise a formula, based on the level of construction activity taking place at a given time and then begin to strictly limit the number of H-2 workers that are allowed in on a sort of step down basis. First of all, on a level of construction activity and on the number of apprentices who are coming out of our local educational institutions to displace the alien worker.

While working in Guam, H-2 workers should not be allowed to change or adjust their status. Now this may be an issue that should be dealt with in pending bills that will reform the Nation's immigration laws. We endorse those initiatives, and we look forward to early enactment of meaningful reform legislation.

INS reports that they expect to process petitions for as many as 2,000 or 2,500 alien workers into the United States—or into Guam by the end of the year. The alien workers are going to spend precious few of the dollars that they earn, in our territory. We would like to keep that money circulating. We would like the benefits of stepped up construction activity, both commercial and government to be reserved to the maximum extent possible for the people who live and pay taxes in Guam.

We respectfully request that the committee support our call for the GAO study of the alien worker impact and for an evaulation of the proposals that we have made here today.

It doesn't make any sense to have a building boom, if all you hear is the boom. We should be seeing some tangible economic benefits like stabilization of our work force, reduced joblessness, improved local wholesale and retail sales and a general strengthening of the island's tax base. Thank you sir.

[The prepared statement of Mr. Gibson follows:]

PREPARED STATEMENT OF E.L. GIBSON

GUAM'S ALIEN WORKER PROBLEM

Congress should direct that the General Accounting Office conduct a study to measure the impact that imported workers are having on the island's social and economic structures.

Statement of the Problem

The ready availability of alien workers tends to supress employment opportunities for local workers. Relatively little money paid to alien workers stays in Guam's economy.

Guam Community College needs additional federal and local resources to strengthen construction apprentice training programs.

Federal and local government agencies perform a great deal of construction and maintenance work on an "in-house" basis. Maintaining separate workforces and limits the amount of work available to private contractors who must import construction workers.

There is no mechanism to require that local workers and apprentices be employed to train to take jobs held by alien workers.

The importation and employment of alien workers entering Guam on H-2 visas needs to be limited and controlled.

Proposed Solutions

H-2 workers should only be permitted to enter Guam when construction activity reaches specific levels.

There should be strict limitations on the length of time an alien worker may be employed in Guam.

Alien workers should not be permitted to change their visa status while in Guam.

Congress should examine the practicality of enacting a limited amnesty for out of status aliens stranded in Guam by economic dislocations that took place in the late 1970s.

The U. S. Department of Labor and the Immigration and Naturalization Service should work with Guam's building industry to set limits on the number of H-2 workers allowed into Guam.

A "local employee" requirement should be met by those seeking to import alien workers.

Federal and local government entities should be compelled to "contract-out" more construction and maintenance work to ensure a continuing availability of work for local employees with building trades skills.

Economic Benefits of Proposed Solutions

Increased career opportunities for local residents.

Greater contributions to the local tax base.

Reduced "outflow" of wages paid to alien workers.

Stabilization of construction activity, ensuring steady employment for local residents.

GUAM'S ALIEN WORKER PROBLEM
Building Industry Association
and the
Pacific Management Resource Group

Guam is in the middle of an important building boom, but local workers, local merchants and the local government are not realizing many of the benefits normally associated with a strong surge in construction activity. I am here to endorse the request of our Congressman, Ben Blaz to have the General Accounting Office to conduct a study of the impact that imported construction workers have on Guam's economy.

Guam builders have historically employed alien workers to do construction work because of a chronic shortage of skilled tradesmen. It is impractical to hire construction workers from the mainland. There is a widespread belief that local people will not work in construction trades, but employment figures contradict that belief. Guam currently has four separate and distinct construction workforces: commercial, government, H-2 aliens and illegals.

About 1,500 to 2,000 Guam citizens and permanent resident aliens are employed in commercial construction and building maintenance jobs in Guam. The federal government employs nearly 1,000 civilians in various "blue collar" trades. About five hundred other local residents are employed by the Government of Guam in jobs that require construction skills. These government jobs generally offer higher pay, better employment benefits and job security than similar jobs in the private sector.

Given the cyclical nature of the business, not many people want to work in commercial construction on a project-to-project basis — they are looking for long-term job opportunities. Wages and benefits are lower in

the private sector because of the competitive nature of the industry, and because federally-set wage rates for alien workers (with H-2 visas) tend to operate as the "maximum" wage for local workers.

The H-2 workers come from countries where wages are low, where there are no rules about a 40-hour workweek and over-time, no EEO laws and no health and safety laws. These workers are largely unaware of their rights under U. S. laws — but even when they know they are being exploited, they make no protest because they know that complaining will get them a quick trip home.

Finally, there is an "underground" building network, made up of an estimated 1,500 to 2,000 "out-of-status aliens". These "Yokois" — nicknamed after a Japanese soldier who was discovered in Guam's jungles 27 years after WWII ended — are in the worst of circumstances.

Most of them were stranded here in the late 1970s after nearly 200 construction and allied companies went out of business when the U. S. Department of Labor ordered increases in alien worker wage rates. Many builders could not re-negotiate their construction contracts and simply disappeared.

They are in the U. S. illegally and they do "pick-up" construction — small jobs — where they work nights, weekends and holidays. They work "off the books" and get paid in cash. They are afforded virtually no protection under the laws that regulate employment in our country. If they are injured on the job, or if they are cheated or abused, they can't go to a government agency for help for fear of being discovered and deported.

These "Yokois" could supplement the legal workforce if Congress would enact legislation to give them a special, one-time amnesty such as the one

authorized by Congress for thousands of illegals in the Virgin Islands.

That Act placed new restrictions on further importation of aliens into our sister Territory — and gave us some ideas.

If federal and local government agencies were required to contract-out the construction and maintenance work now being done "in house" by government employees, the private workforce would become large enough to perform virtually all government and commercial construction and maintenance work in Guam. Fewer alien workers would have to be imported and that would result in fewer construction dollars being exported from Guam's struggling economy.

The Guam Community College needs additional federal and local resources — help from the Bureau of Apprenticeship and Training created by the National Apprenticeship Act of 1937 — to enlarge its construction apprentice training program.

Legislation or administrative regulations are needed to compel those who, for whatever reasons, employ alien workers to instead employ the apprentices enrolled in construction training at the Guam Community College.

Federal rules now require that apprentices be paid eighty-percent 80% of the alien worker wage — a minimum of $6.28 an hour. This steep price-tag on the services of trainees is the chief obstruction to full employment of apprentices, but it is only one reason so few have been hired and trained.

If the Bureau of Apprenticeship Training (USDOL) would permit initial employment of apprentices enrolled in the Guam Community College program at sixty-five percent (65%) of the H-2 rate (about $5.20 per hour), we could begin a phase-down in the number of H-2 construction workers

entering Guam without seriously disrupting the current building boom. This phase-down period — 36 to 48 months — could be one of intense on-the-job training for apprentices and other local workers.

During the phase-down period, Guam could place new emphasis on apprentice training so the Guam Community College could graduate journeymen who would eventually eliminate the need to import all but the rarest of skills.

Working with members of the building industry, the Immigration and Naturalization Service and the U. S. Department of Labor could devise a formula based on the level of construction activity taking place at a given time, to strictly limit the number of H-2 workers that would be allowed to enter Guam.

Once limitations on H-2 importation are set, those limits should only be waived when Guam would qualify for federal disaster assistance — upon a Presidential declaration. In those circumstances, H-2 workers would have to be repatriated within a year of the disaster.

While working in Guam, H-2 workers should not be allowed to change or adjust their status. This may be an issue that should be dealt with in pending bills that will reform our nation's immigration laws. We endorse those efforts and look forward to early enactment of meaningful reform legislation.

We believe these actions will strengthen Guam's economy and lessen reliance on federal assistance.

The Immigration and Naturalization Service reports that that they expect to process petitions for as many as 2,000 to 2,500 alien workers to accomodate the recent increase in construction activity in Guam. However, those alien workers will spend precious few of the dollars they earn on

Guam.

We need to keep that money circulating in Guam; and we want the benefits of stepped up construction activity — both commercial and government work — to be reserved, to the maximum extent possible, for people who live and pay taxes on Guam.

We respectfully request that the Committee support our call for a General Accounting Office study of the alien workers' impact on Guam and an evaluation of the proposals we have made here today. There no sense in having a building boom, if all we hear is the noise — Guam should be able to see some tangible economic benefits such as: stabilization of our own workforce, reduced joblessness, improved sales and a strengthening of our tax base.

Representative LUNGREN. Thank you very much, Mr. Gibson. Now Mr. Black.

STATEMENT OF ROBERT E. BLACK, MEMBER, PACIFIC MANAGEMENT RESOURCE GROUP, AND THE GUAM EMPLOYERS COUNCIL

Mr. BLACK. Thank you, Mr. Vice Chairman, Delegate Blaz, this afternoon, I would like to address the problems that we see in what the existing American Preference Policy is—exhibits relative to the Federal construction program in the Guam area.

I speak as the principal in a major construction firm that has been actively involved in military and civilian work in Guam and the trust territories for almost 30 years.

At the present time, we are one of the very few American firms, American construction firms, remaining on Guam.

Congress enacted an American Preference Policy in Public Law 98-396, that would apply to the award of military construction contracts in Guam and other U.S.-administered areas of the Pacific. Minor amendments are needed to the policy to insure that the will of Congress, as we perceive it, is carried out.

The problem revolves around, primarily, foreign contractors using home government subsidies and readily available, easily exploited alien workers, are able to underbid American contractors for federally assisted construction contracts, some of which are located on security sensitive defense installations on Guam.

Insufficient enforcement of Federal laws that regulate employment and attractive foreign currency exchange rates make it impossible for American contractors to compete for Government contracts in many instances. Many U.S. builders have withdrawn from Guam in recent years because of the unfair competition.

Local workers are discriminated against, allegedly, because they do not speak Japanese, Korean, or Chinese, and because they know their rights under wage-hour laws.

Local businesses do not benefit from the presence of alien workers, because most of their earnings are sent home, not spent on Guam. Most of the alien workers now on Guam are exempt from Social Security tax, and local taxation officials report extreme difficulty collecting the income tax due from these foreign workers.

As far as solutions are concerned, we see the following: Lowering the $5 million threshold at which the preference policy takes effect will help insure that there are ample opportunities for U.S. firms to sustain an American contractor presence in the Pacific; elimination of the formula that allows a foreign firm to bid 20 percent under U.S. firms to win the contract and simply prohibit international bidding, unless all U.S. firms have exceeded the Government estimate for the project; to clearly define the term "U.S. contractor," so contracting officials will not interpret the policy to suit their own purposes; strengthen compliance with the Fair Labor Standards Act, OSHA, EEO and other laws regulating employment in the United States; and finally, to repeal exemptions to FICA and prohibit changes in visa status while aliens are working in Guam.

Now the following are economic benefits of proposed solutions:

American contractors and American workers will be given a fair and equal opportunity to perform work that is paid for by the American taxpayer, and the proceeds of federally assisted construction will remain in Guam's economy.

U.S. strategic interests in the region will be maintained by preserving a nucleus of American contractors and workers who have historically stood ready to serve American defense interests.

Improved training and employment of local residents will naturally follow.

Significant contribution to the island's overall economic health and strengthening of the local tax base will also evolve.

A congressional policy, enacted in Public Law 98-396 provide—this relates to the American Preference Policy—to provide a preference for U.S.-owned contractors in the award of military construction projects is not currently working as Congress intended; however, with minor modifications, it could work to the benefit of American business and workers without pushing costs up significantly.

Right now, American contractors are being driven out of the Pacific by unfair competition from foreign-owned firms. When Congress enacted the American Preference Policy, we were confident it would work to protect the interests of American construction workers, U.S. contracting companies, and the strategic interests of the United States. However, foreign contractors have found some loopholes in the policy and are making the most of these loopholes.

The number of military construction contracts awarded to foreign contractors has been increasing sharply over the last few years. In 1981, about 21 percent of the military construction contracts were awarded to foreign firms. In 1982, the percentage rose to 47 percent. In 1983, it was 77 percent. In 1984, when the preference policy was put into effect, the figure was still about 67 percent. The 1984 figure would have been higher, but Congress ordered that some projects planned for award in 1984 be put on hold, so the contracts could be bid under the new preference policy.

However, even with the new preference policy in effect, in the first 100 days of calendar 1985, more than $59 million in federally assisted contracts, mostly for military construction, were awarded to foreign contractors. Military security and intelligence agencies have expressed concern that detailed plans, drawings, blueprints, and specifications of vital military installations are handed out to anyone who asks for them to prepare construction bids.

There are several contractors operating in Guam today that are extensions of the government in Peking. One of them was awarded a construction project on Guam's main naval station last May. Two contractors from the People's Republic of China have bid on a $3 million light simulator facility at Anderson Air Force Base just last month. The low bidder was a South Korean contractor, whose other military construction contract is reportedly behind schedule. Sources in the contracting office say the contractor and the Navy are in a letter-writing battle over work that was supposed to start months ago. That pertains to the first contract awarded to that contractor.

Meanwhile contracting officers have distributed plans for: a missile maintenance facility on the only SAC base in the Pacific; an ammunition-handling facility, where the Navy will load, unload,

and store conventional and, presumably nuclear weapons; and third, other military facilities that are vitally important to the defense of the free world. Can a price be put on the diminished security of these new defense facilities?

Security issues are only part of the problem. Economic considerations also figure in strongly in the need to revise the policy. The preference policy is included in military construction appropriations bills that will take effect in fiscal year 1985. Representatives of American contractors have worked with House and Senate staff for the last 5 months to attempt to amend the policy, beginning with the elimination of the $5 million threshold at which it begins to apply.

A further amendment would eliminate the existing provision that requires only that U.S. firms be awarded military construction contracts if their bids are within 20 percent of the low bid of a foreign contractor. International bidding should be allowed only when U.S. contractors have all exceeded the Government estimate for the project.

A similar policy governing military construction in the Persian Gulf-Indian Ocean area has not adversely affected construction costs there. In fact, U.S. contractors have been performing under an executive order by the Secretary of Defense at about 80 percent of Government estimates at Diego Garcia.

We also ask that Congress define the term "U.S. contractor" more narrowly to stop its liberal interpretation by and for the convenience of the contracting agency. The language we have suggested for the preference policy is similar to the definition found in AID regulations governing contracting.

There is evidence to suggest that rules on subcontracting are not being adequately enforced, and foreign firms may be entering joint venture agreements of questionable legality.

Federal contracting rules require that a prime contractor perform at least 20 percent of the work on their contract; that they may not subcontract more than 80 percent of the job. However, the subcontracting rules have been overlooked by contracting officers who oppose the preference policy.

At a time when public attention is being focused on the procurement and contracting practices of the Defense Department, it would seem useful for Congress to direct the Government to develop systems for prequalifying contractors, so that low bidders are prevented from deliberately buying contracts and making up their losses with change orders.

There is also an urgent need to strengthen systems to audit contract claims and change orders to determine if these low bids really, at final analysis, are low.

Even without change orders, foreign firms can often underbid by employing a number of questionable techniques. Those include the employment of large numbers of easily exploited alien workers, and use of questionable payroll plans and home-government subsidies.

Another way foreign contractors manage to underbid U.S. firms is through currency rates. The yen, for instance, is seriously undervalued in relation to the U.S. dollar and can be traded on very attractive terms when millions of U.S. dollars are involved.

Here is an example of how the exchange rate system works: a military construction project with a Government estimate of $10 million is out for bid. A U.S. contractor bids $9.5 million; a foreign competitor bids $7 million, defeating the U.S. firm by more than 20 percent.

When the job is completed, the foreign contractor goes home with $7 million in U.S. dollars and exchanges it for perhaps as much as $8 million or $9 million worth of his country's currency.

In these circumstances, the 20-percent preference is meaningless. During the course of the project the foreign firm has enjoyed the services of employees who are exempt from payment of Social Security taxes, which are currently 7.05 percent of payroll, subsidized loans from his home government and has been subjected to only minimal enforcement of wage-hour laws, OSHA regulations and other U.S. laws that regulate employment for U.S. firms. Simply put, they are not required to play by the same rules that U.S. contractors must follow. Small wonder that they so often would win the bidding game.

America has important strategic interests and responsibilities in the Pacific and U.S. construction firms have historically stood firmly behind our armed forces, but when the next crisis erupts in the Pacific, U.S. military may not be able to depend on the foreign contractors that are now displacing U.S. firms and the western Pacific, because they cannot compete with foreign construction companies that do not operate by the same rules.

If Congress will act to strengthen the preference policy, it will stimulate and maintain competitive U.S. contractor interests in the Pacific and insure that the U.S. contractor and the U.S. worker will be allowed to perform the work that is paid for by the U.S. taxpayer. Thank you.

Representative LUNGREN. Thank you very much.

Mr. Gibson, maybe you can give me some information on that. Am I wrong in saying that the H-2 Program is currently administered by the local government in Guam?

Mr. GIBSON. No, Congressman, only the certification process that was formerly done by the U.S. Department of Labor. My organization and the chamber of commerce and several other groups lobbied for 4½ to 5 years to persuade the Federal Government to allow our local government to perform the certification. That is to say, there are no local residents available and willing to take this job.

Representative LUNGREN. But that certification does take place at the local level now?

Mr. GIBSON. At the Office of the Governor.

Representative LUNGREN. But as far as the actual law and the regulations pursuant to it, in all other respects that is the Federal Government?

Mr. GIBSON. Yes, sir; the role then is played by the Immigration and Naturalization Service.

Representative LUNGREN. I happen to be very active in the immigration area. I am the ranking Republican on the Immigration Subcommittee and involved with the problem of illegal aliens throughout southern California and other areas of the country. I

didn't realize we had such a problem visiting us in the territory of Guam, as well.

How many currently unemployed residents of Guam—at least do you have any estimate of how many currently unemployed residents of Guam we might be able to have employed in the construction trades under the proposals that you put forward for reform of the administration of the H–2 Program? Do you have any idea?

Mr. GIBSON. No, Congressman, I haven't. It is kind of an illusive number, the whole—what is the unemployment rate in Guam? Is it 9 percent, 12, 14? Or is it 16? We're not sure what the unemployment rates are. The problems evolve for our labor department in collecting unemployment data. They fish in a very small pond. If they miss, 20 or 50 or 100 workers, it can turn into an awful percentage, whereas in the United States, when you're fishing in the pond with 137 million working people, if you miss a couple of thousand, it doesn't have that kind of impact. But out of the—as Mr. Flores said earlier today, we graduate a couple thousand youngsters from our high schools every year. And great numbers of them find no economic opportunities in the local government or in the private sector. They may not be ready yet to go to college, and they are using their feet to go find work.

Too frequently, in my view, they are finding that work back in the U.S. mainland, where they can enter vocational training. We have some vocational training programs in Guam. We just don't have enough money, enough of everybody's attention. And I'll have to let the private sector take a rap for that. We haven't paid enough attention, I don't think, to the job training in the private sector. Maybe because the Government hasn't given us the lead.

Representative LUNGREN. Let me ask this. You say that—at least it seemed that you articulated two problems. One is, you think an overuse of the H–2 workers. The other one is the illegal aliens that are working. Is it that difficult to find the illegal aliens? I mean, when I look at the problem in the U.S. mainland, you've got so many in so many different places, and they're difficult to find. They're difficult to—we can find some of them. We just put them over the border of Mexico, and they come back within 2 days, usually, depending on what the weather is like.

It just strikes me that is a little different problem than you have in Guam. Is it we don't have the resources to find them?

Mr. GIBSON. I don't believe Immigration has sufficient resources, and the wage and hour inspectors from both the Guam government and from the U.S. Department of Labor's Employment Standards—we only have one Federal wage-and-hour agent on the whole island, and he, like most Government employees, doesn't work Saturdays and Sundays, when a lot of this pickup off the books construction is going on. Building an extra bedroom, pouring a patio or a driveway or something like that.

They frequently decide, all right, we're going to go out, we're going to have a sweep. But that's, in many ways, offensive to all of us who live there because the next thing you know, on television that night or in the paper the next day, here's a band of hapless aliens in handcuffs that couldn't get home in the first place because the company they worked for kept their passport in the safe

for safekeeping. And the company went out of business—he says, I can't leave.

Or, if he turns himself in, he's subjecting himself to all kinds of investigations and deportation hearings and maybe get his name put on the INS listings. It's really unfortunate.

Representative LUNGREN. Well, then back on the question of the H-2 workers, would you suggest that the program that should exist in the future should be one in which the decisions are made here at the Federal level as to certain criteria to be utilized for qualification?

Or, that further parts of the administration of the program including the criteria to be established for allowing H-2 workers into Guam be done at the local level?

Mr. GIBSON. I would still like to see a great deal of local level activity, involvement in that activity. I think it would really be useful if the United States or Labor, the Justice, the INS people, our local government folks and the private sector, the people who have the jobs, our vocational educational institutions, we could all sit down and agree on some rules.

For instance, perhaps a 1-to-10 ratio, for every 10 or fewer H-2 workers you propose to bring into the island. Let us see where you have an apprentice on your payroll and some sort of long-term commitment to continue to employ that person.

Representative LUNGREN. Although you suggested to me the requirement for pay to apprentices at the present time tends to lose its attractiveness to an employer.

Mr. GIBSON. Yes, sir; and the rate keeps—the rate of dollars keeps going up. The regulations, and I believe those are BAT regulations, require that the apprentice be paid 85 percent of the H-2 worker wage rate.

That's considerably higher than what the apprentice rate is in the United States. If we could somehow get it down a little bit lower and tell young people, for instance, coming out of our high schools and thinking about going into the community college training program, we'll start you at $13,500 a year plus benefits. When you get finished in 3 or 4 years, you will have a skill that will support you and your family the rest of your life at rates then beginning as $20,000 a year.

Representative LUNGREN. Mr. Black, can you give us any estimate in terms of jobs and dollars American businesses in Guam may be losing annually to foreign companies under the current preference policy?

Mr. BLACK. Well, I think one of the figures I gave was something over—in the area of $60 million this year, which has already been awarded to foreign firms. This is on Federal contracts.

Representative LUNGREN. And do you see that to be—well, do you see any, other than being here and hoping that there might be some change on the Federal level in terms of statutory change, do you see any hope for a different application of the American preference policy?

You indicated that there are some people you find contracting officers who—I don't know hou you put it, but you indicated they are predisposed against the American preference policy.

Mr. BLACK. Well, yes. I'd have to say that there are contracting officers who are simply indifferent to it. There is a great deal of discretion in the execution of the American preference policy as it now is established. And as a matter of practice, I'd say the officials involved simply accept any position that any principal represents; there's no investigation of what his particular status is.

Representative LUNGREN. Delegate Blaz.

Delegate BLAZ. I'd like to draw your attention to the presence of workers from Communist China, which you alluded to earlier.

Approximately how many workers do you suppose are in Guam from Communist China?

Mr. BLACK. I'm not positive, Congressman. I think, about 200 on Guam. Yes?

Mr. GIBSON. It's getting there. It's a hard number to keep track of because while it's in the petition process, INS won't give that number to me on the telephone. And I can understand why. I know of 40 working for one South Korean contractor, who, in turn, uses those employees because he's a subcontractor to another, a Japanese, prime contractor on the fuel facility at the SAC base at Anderson.

And I'm given to understand from the Immigration folks back in Guam that they are looking—they were originally expecting to process 1,500 to 2,000. Now they're saying 1,500 to 2,000. And they say the overwhelming number of those petitions have names on them that are Chinese.

Representative LUNGREN. Could you yield?

Are you saying that those Republic Chinese Nationals are working for a South Korean contractor who is a subcontractor to a Japanese contractor?

Mr. GIBSON. Yes, sir, precisely.

Representative LUNGREN. I just wanted to get that straight. [Laughter.]

Delegate BLAZ. Well, I'm glad you did. [Laughter.]

Let me go back to this. You're saying to me that we have Chinese—let's assume they're Communists for the purposes of the argument—being paid by U.S. defense installations, such as the naval station and at Anderson Air Force Base, working in possibly secure areas in Guam?

Mr. GIBSON. Yes, Congressman Blaz. In fact, by way of telling you about a very recent bid, the religious education facility at NACAMPS, which, as you do, may be the single most important piece of communications territory in the Pacific.

That job was barely won by an American contractor, who just happened to round his numbers down instead of up and beat an outfit called China State Civil Engineering by a thousand dollars. And I would have been very curious to have a religious education facility on a supersecret communications base being built by a company with ties to the government in Peking.

It's just really incongruous.

Representative LUNGREN. Maybe they've got religion. [Laughter.]

Mr. GIBSON. I'm afraid not our kind.

Delegate BLAZ. Are you aware of any other community in America that has the same problem?

Mr. BLACK. Saipan. They have Chinese Communists working.

Delegate BLAZ. That's because their immigration laws do not forbid them from doing that.

And you are saying that our immigration laws do not either on Guam provide clearance from INS. Right?

Mr. BLACK. No, sir. We tried to clear this up a while back when the government of Guam was given the certification authority. And we thought, because the military is our number one construction customer, that it would probably be good if we had our own little builtin rule that said:

"There won't be any workers brought in unless they come from non-Communist countries."

We took those draft rules to INS and they were very pleasant about it but they said, "You can't do that. We can't do it—and we're the Feds."

So we had to take that one out of the draft.

Delegate BLAZ. To your knowledge then, there is no law, either local or Federal, that prohibits the expenditure of DOD funds for contractors from Communist China who work in Guam? You're not aware of any at all?

Mr. GIBSON. I have been struggling for a couple of years trying to find one because if we could, we probably wouldn't have to be going through the work that, thank's to you, has been done on the American preference policy this year in an attempt to get it strengthened to make it work.

Representative LUNGREN. Well, thank you. I recall there was an article, piece that appeared either yesterday or the day before. It was either in the Los Angeles Times or the Washington Post. I know they're quite different, but I have to read both of them every day. By Loury, the international political cartoonist, talking about the very big question that 2 billion Chinese job market throughout all of Asia is going to present to the rest of us in terms of type of pay scale that they can get their people down to.

I suppose anything is better than what they're getting now, in real terms. And how there is a question that the U.S. Government and all governments with workers are going to have to be concerned with as we face the future, in the next 20 years.

And you've given me an insight that I didn't know about. I didn't realize we were providing them work through the Defense Department.

I appreciate your testimony. You brought up a lot of questions here that I think we can think about for some time, and you've given us a real flavor of how that impacts on Guam itself. Thank you both.

Mr. GIBSON. Thank you, Mr. Vice Chairman. Delegate Blaz.

Delegate BLAZ. Thank you.

Representative LUNGREN. The last panel that we have for us this afternoon will discuss the general issue of U.S. immigration trade in maritime policy, in fact, on business development in Guam. And those scheduled are Mr. Steven Segal, president of Sigallo, Ltd.; Mr. Gerald Perez, vice president, Duty Free Shoppers, Ltd.; Mr. Simon A. Sanchez II, president of Simon A. Sanchez II & Associates; and Mr. Robert H. Jones, the executive vice president of Jones & Guerrero Co., Inc.

OK, first of all, welcome to all of you and I would ask Mr. Perez to go first, followed by Mr. Segal, Mr. Sanchez, and Mr. Jones.

STATEMENT OF GERALD PEREZ, VICE PRESIDENT, DUTY FREE SHOPPERS, LTD., ON BEHALF OF THE GUAM CHAMBER OF COMMERCE

Mr. PEREZ. Thank you. Mr. Vice Chairman, and members of the Joint Economic Committee, my name is Gerald Perez, vice president, retail operations for Duty Free Shoppers, from Guam. I'm here this afternoon on behalf of the Guam Chamber of Commerce to share our views on the visa waiver issue.

I am here to point out the important significance of a visa waiver for Guam and to update you a little bit on the progress of its implementation as authorized in provision 602 of Public Law 88-454.

Before proceeding with my oral statement, however, I would like to make sure that a prepared document on another subject is included into the record, and ask that Mr. Cobb, ensure that it's submitted for the record.

Representative LUNGREN. Your entire prepared statement will be considered as part of the record.

Mr. PEREZ. With a resident population barely over 110,000, a real disadvantage we face in economic development is overcoming the many problems related to economies of scale. Implementation of a visa waiver program can broaden Guam's tourism potential, thus providing economies of scale which can satisfy minimum thresholds of economic viability in a number of service-related industries.

Air transportation, financial services, public utilities, health care and tourist-sensitive goods and services are among those industries that could benefit from the Guam only entry provision.

An expanded Guamanian economy would subsequently provide two major benefits. First, by having a strong and prosperous economy, Guam can be in a position to accommodate a strategic defense buildup as may be required.

Current sensitivities in the Philippines and increasing Soviet intrusion into the Western and South Pacific underscore the island's strategic importance to United States national security interests.

In terms of international trade, Guam's economy can be poised to exploit specific trade growth and to enhance our national economic interests in the Pacific basin.

Fueled by a tourism base economy, an expanded private sector will encourage and sustain the dramatic shift from public to private employment now taking place on the island. This should then generate more local tax revenues, reduce Guam's Federal dependency and provide an insular economic development model against which the emerging states of Micronesia can compare.

In short, a successful visa waiver program can become the driving force behind which local economic self-sufficiency and U.S. national interests can both be achieved.

And while such a program has yet to be implemented as of this date, I hasten to point out that the Interior, Justice, and State Departments are reviewing a proposed arrival and departure control system that seems to be basically satisfactory to different parties concerned.

With some refinements in procedure and some clarification, and clarification with respect to financial responsibilities, we hope that this program can begin as early as perhaps next spring.

In closing, we in Guam's business community would like to thank Congress for its support and responsiveness to this long-standing issue, and also like to acknowledge the initiative and assistance provided by all affected Federal agencies, as we begin to finalize implementation details. Thank you.

[The prepared statement of Mr. Perez, together with attachments, follows:]

PREPARED STATEMENT OF GERALD PEREZ

EXECUTIVE SUMMARY

Guam's economic growth over the years has been curtailed by federal laws and administrative regulation. Visa requirements for Asian travelers wishing to enter Guam are a major constraining force.

The future development of the island's economy is dependent upon the proper climate for growth, and air service is the keystone. Expansion of Guam's tourist industry is the lynchpin to building air service and with it the climate for growth and self-suffiency. A visa waiver program and a Guam Only Entry Permit, similar to that used in Puerto Rico, will facilitate the expansion of tourism and the long term growth of Guam's private sector.

Recognizing Guam's unique needs, the United States Congress in the fall of 1984, passed Public Law 98-454 (Omnibus Bill, Provision 602) which provides for a visa waiver of non-immigrant visas for Guam. This law amended Section 212 of the Immigration and Nationality Act (8 U.S.C. 1182).

In August 1985, the Interior Department sponsored a conference on Guam to discuss the potential of tourism in the Pacific Basin. Following that meeting, an ad hoc bipartisan task force was formed to examine what could be done under the law and within administrative regulation to improve Guam's tourism potential. The task force has now forwarded its

recommendations to the U.S. Immigration Service and the Department of Interior for their review.

The Territory of Guam is now awaiting action by a federal task force comprising USINS, the Departments of Interior and State, to meet, as required by PL 98-454. With the approval of the federal task force, Guam can begin a promotional program to encourage visa free travel from some Asian countries and a Guam Only Entry Permit for others. It is the opinion of many on Guam that this increase in tourism will lead to expanded air service and that Guam will then have an opportunity to become the regional headquarters for American businesses in Asia. The next step will then be the establishment of Guam as the banking/financial center in the Asia pacific rim.

The maturity and development of Guam will mean both security and financial gains for the United States. The USSR has recently expanded its Pacific Fleet and its fishing boats are negotiating fishing rights with the nation of Kiribati, just south of the Marshall Islands Pacific missile range. The U.S. bases in the Philippines are threatened by political unrest in that nation. Guam and the Mariana Islands stand as the only American soil in the region. Additionally, the June 1985 Federal Reserve Bulletin reports the U.S. Balance on Current Account to be a negative $101,642 billion. The growth of Guam into a business and financial center would have a major effect on capital outflow.

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VISA WAIVER

I. BACKGROUND

The United States Territory of Guam is administered under and regulated by laws intended to govern the mainland United States and its population in excess of 220,000,000. Guam with its population of 110,000 is physically located in Asia some ten thousand miles from Washington D.C. or more than three times the distance from New York to San Francisco.

Guam's economic development has been curtailed and constrained by federal laws that in many instances were not designed for an insular island positioned geographically closer to Manila, Hong Kong, Taipei, Tokyo and Seoul than it is to Honolulu, and the North American continent. The laws that protect the auto mechanic in Caldwell, Idaho, the waitress in Long Beach, California and the fisherman in Bar Harbor, Maine do not always apply as well to the life guard at Tumon Bay in Guam.

Due to its isolated location in the Pacific, Guam's growth and development is literally at the mercy of the air service industry. Although this industry is interested in expansion and the territory desires to build its current strongest industry, tourism, federal laws and administrative regulations limit travel to Guam by foreign nationals.

Recognizing this problem, in the fall of 1984, Congress passed Public Law 98-454 (Omnibus Bill, Provision 602) which provided for the waiver of non-immigrant visas for Guam. This law amended Section 212 of the Immigration and Nationality Act (8 U.S.C. 118). The law provides that: "a non-immigrant visa may be waived by the Attorney General, the Secretary of State, and the Secretary of the Interior, acting jointly, in the case of an alien applying for admission as a non-immigrant visitor for business or pleasure and solely for entry into and stay on Guam for a period not to exceed fifteen (15) days, if the Attorney General, the Secretary of State, and the Secretary of the Interior jointly determine that:

a. Guam has developed an adequate arrival and departure system; and

b. Such a waiver does not represent a threat to the welfare, safety, or security of the United States".

The Guam Visa Waiver has become law. The law states that the Guam Visa Waiver "shall apply to any eligible person coming to Guam from a foreign country for the purpose of busines or pleasure for a period not to exceed fifteen (15) days." The law remains to be implemented.

In early August 1985, the Interior Department sponsored a conference on Guam to discuss Pacific Basin tourism potential. The conference was chaired by Ms. Kitty Baier, Deputy Assistant Secretary of Interior for Territorial and

International Affairs. At the suggestion of another federal official at the conference, Mr. William Craig, District INS Director from Hawaii, an ad hoc bipartisan task force was formed to examine the issues and development of "an adequate arrival and departure system". Member of the task force represented the federal government (INS), The Governor of Guam, The 18th Guam Legislature, the Department of Commerce, the Airport Authority, the Airlines, the Guam Visitors Bureau, the Chamber of Commerce and the Guam Growth Council. The work of the task force is attached to this presentation as appendix "A".

The basic program that has been designed by the task force meets the major requirements defined by Congress with the passage of PL 98-454. The Department of Interior and the Immigration and Naturalization Service within the Justice Department have reviewed the program and have commented in a positive way.

The next steps in the process are a review of the proposed program by the Department of State and that a meeting of the Federal Task Force, made up of the Departments of State, Interior and Justice be convened. Once the Task Force has determined that an adequate arrival and departure system has been developed by Guam, and that there is no threat to the welfare, safety or security of the United States, the fine tuning and implementation of the Guam Visa Waiver including a Guam Only Entry Permit can become a

reality.

II. PROPOSED CHANGES

A. Arguments for Elimination of Current Visa Requirement

A visa waiver for temporary visitors to Guam is the key to expanding the tourist industry markets, and opening a multitude of avenues for greater diversification of Guam's economy. New tourist markets can expand air service and thus provide transportation links vital to Guam's development as a business center in the western Pacific. Positive action now will overcome the problems which prevent this from occurring. The economic sectors that are specifically effected include tourism and business.

1. The visa requirement for Guam's Japanese tourists is a time consuming and costly burden which places Guam's tourist industry at a competitive disadvantage to the Republic of the Philippines, Thailand, Singapore and the Commonwealth of the Northern Mariana Islands (CNMI) and other island nations where no visa is required.

2. The visa requirement hinders Guam's ability to expand its tourism market beyond its present excessive single dependence on Japan.

3. Relief from the visa requirement can result in opening new tourism markets in Asia. Expanded airline service and hotel development will be complementary factors to such progress. Guam needs improved air transportation

links to eastern Asia to attract foreign and U.S. capital, as well as those businesses seeking to service the Asian region. Expanding the tourist market in eastern Asia will create these air linkages, but this market expansion depends on the elimination of tourist visa requirements.

4. The visa requirement prevents foreign investors in Japan, Taiwan, Hong Kong, Korea, the Philippines, and elsewhere from quickly accessing Guam to deal with business emergencies.

5. The U.S. Commonwealth of the Northern Marianas, as close as 30 miles north of Guam, has complete control over its temporary immigration/visa requirements. This places them in a distinct competitive advantage over Guam for tourism and business investment.

B. Options to Current Visa Policy

The foregoing problems can be eliminated and a number of options are available for consideration. They include:

1. Guam should have complete control over the issuance of temporary visas.

2. A visa free entry to Guam should be established for all who would normally receive a B-2 visa (required of visitors for pleasure) from Japan.

3. Visa free entry to Guam for all tourists from the surrounding Asian countries or other tourist markets should be established as appropriate.

4. The B-1 visa (required of visitors for business) for

Guam should be eliminated for foreign investors meeting specified requirements.

In all of the above solutions, the ideal situation is to allow Guam to administer the program with the oversight from the INS. The alternative is for INS to implement these Guam-only visa policies.

III. EXPECTATIONS WITH VISA WAIVER

A. Advantages to the Territory of Guam

1) Tourist Industry

Guam can be the proverbial "island in the sun" vacation spot to nearby Asian urbanites. Bermuda and the Carribean are favorite vacation spots for east coast U.S. mainlanders; Majorca and the Greek isles are convenient getaways for Europeans on holiday. Hawaii annually draws hundreds of thousands of tourists from the American mid-west and Pacific seaboard states. Guam has the potential to become an island ideaway for vacationing Asians, as well as expatriate Europeans living and working in the metropolitan areas of the Orient.

Tourism is currently the island's largest private sector industry. Statistics developed by the Guam Department of Commerce (DOC) show that in 1983, a total of 350,540 visitors entered the island's ports. Approximately 7,000 people are presently employed in the local tourism industry to service these visitors. This equates to an employment

ratio of one person working in the industry for every fifty visitors. Visitor expenditures exceeded $200 million in 1983, with the average visitor expenditure estimated at approximately $570 per person. The impact on the economy is considerable. Excluding their air fare, these tourists spent an estimated $228,250,000 on Guam in 1983.

The majority of Japanese travelers use a tour agency to obtain their visas. This requires at least two weeks and the charge is passed on to the tourist. Elimination of the requirement provides the opportunity for tourists to spend more money locally. The Guam Visitors Bureau (GVB) reported that in 1984, the number of Japanese visitors was 301,499. Assuming a $10 per person visa processing charge, over three million additional dollars could have been spent by tourists on Guam during that year.

The records from GVB indicate that for the five year period from 1980 through 1984, Guam experienced an annual average increase in visitors of 4.5% per year. Knowledgeable tourist industry executives with major hotel and retail organizations estimate that in the first year of a visa waiver Guam will realize little more than a 1% increase in this annual growth figure. They also point out that it took time for other island holiday destinations to increase the number of impulse visitors, and calculate that it will take Guam at leat five years to experience any major increases in the figure. This delay will provide the requisit period to

improve tourist related facilities and infrastructure.

These factors play a vital role in securing a healthy tourism and business environment for the island. Elimination of the visa requirement for temporary visitors to Guam, particularly the B-2 tourist and B-1 business visas, is a crucial step toward a more stable economy.

Specific conditions give support to the elimination of the visa requirement, including the growing Asian middle class, and that region's improving economic conditions. An important addition to the visa waiver for Japanese visitors will be the broadening of the tourist clientele to visitors from other parts of Asia, beyond the predominantly middle class Japanese who now visit the island. This can be a very viable market for Guam if visas were not required for entry. The middle classes in Hong Kong, Taiwan, Singapore and Korea provide a broadbased and growing market for the expansion of Guam's tourism industry.

Recent figures published in the Far Eastern Economic Review Asia 1984 Yearbook reveal the Per Capita Incomes in U.S. dollars in 1982 for the following Asian countries: Japan ($9,008), South Korea ($1,671), Singapore ($5,302), Hong Kong ($4,801) and Taiwan ($2,334). According to the Yearbook, the general economic outlook for the region continues to be positive.

For example, South Korea's economy, after four years of

recession, experienced a vigorous up swing in 1983. Its Gross National Product (GNP) grew by 9.6% (inflation adjusted) in the first half when compared with the previous year.

Portions of the Japanese economy actually became stronger during the recent worldwide recession. According to the Yearbook, after registering a negative growth in GNP of 2.7% in the final quarter of 1982, the country showed a 4% growth factor in the first quarter of 1983 and 5.1% growth in the April-June quarter. The Yearbook also states that Japanese banks and brokerage houses continue their penetration of foreign markets, and will continue to accelerate their entry (domestically and internationally), into the areas of leasing, consumer credit and venture capital. Although 1983 saw a stagnation of capital investment for Japan, greater amounts of capital investment for the coming years is expected. This should help sustain recovery and keep economic growth at a 3 to 4 percent level.

In November 1979, Taiwan lifted the restrictions that formerly prevented Taiwanese from traveling as tourists overseas. In 1981, nearly 320,000 tourists traveled abroad together with another 256,000 traveling on business or other matters. Taiwan is an increasingly affluent country with an expanding middle class. Eliminating visa requirements for Taiwanese tourists will help Guam to capture a portion of this market.

During the past two years, new policy changes have increasingly liberalized Korea's economic marketplace. In 1982, according to the Adminstrative Secretary of Guam's Korean Consulate, a new policy for Korean citizens was enacted. It allowed for non-restrictive travel for those citizens fifty years of age and above. The Korean government anticipates making additional changes to their travel policies for other age groups within the next five years.

There exists a number of other potential tourist markets for Guam in Asia. Singapore is nearly as industriaiized as Hong Kong. Malaysia and the Philippines are developing rapidly with Thailand and Indonesia not far behind. East Asian nations and city states are viewed as having the fastest growing economies of the 1980's. Given minimal travel restrictions, it is possible that these countries will represent potential tourist markets for Guam before the decade is over.

As these other Asian tourist markets become viable, Guam must be able to facilitate the development of tourism. The visa waiver is the vehicle by which this goal can be reached. From Guam's perspective there is nothing for the federal government to lose by allowing visa free entry into Guam, and a great deal for it to gain. The economic benefits accruing to Guam through a larger tourism industry and the business expansions that would follow, could quickly result in Guam weaning itself from the federal dollar. Reversing the ever

increasing dependency on the federal dollar that has developed over the past four decades is possible and the visa waiver can play a major role in stabilizing the island's economy.

2) Economic Development

A recent article in Guam's Pacific Daily News outlines the revenues being lost by the island due to current visa requirements. Federal visa regulations required that foreign filmmakers were allowed entry to Guam with a B-1 visa. In February 1983, the regulation was changed to require that foreign filmmakers and their crews must obtain H-1 visa (designed for temporary workers with distinct merit and ability) or H-2 visa (for temporary workers not falling under the H-1 category). Unlike the B-1 visa that take only a few days to process, H-1 and H-2 visas normally take 60 days. A film crew was denied entry to Guam in March 1985 because the group did not possess H-1 visas. Bureaucratic restrictions such as this result in the loss of revenues for the island's economy and rob Guam of potential exposure that film making ventures can provide.

3) Business Investors

An economic boom in the early 1970's brought a great deal of foreign capital into Guam. The economic slump that followed revealed how difficult it was for foreign investors to quickly return to Guam to handle emergency business matters. Guam now needs the investment captial that exists

in Japan, Hong Kong, Taiwan, Korea, the Philippines, and Singapore. Allowing businessmen from those areas to enter Guam temporarily without a B-1 business visa facilitates local efforts to attract this capital.

The (CNMI) and Guam are both part of the United States, and yet the role of INS in each entity is radically different. The CNMI has complete control of immigration and visa requirements for non-U.S. citizens wishing to temporarily enter those islands. The federal government, through INS, has complete responsibility for Guam. In competing for tourists with the CNMI, Guam is at a severe disadvantage because these islands offer the same basic attractions to tourists.

4) Airline Services

The growth potential for the island's tourist industry is excellent provided visa free travel can be established. Guam offers numerous attractions including duty free shopping, a clean tropical environment, U.S. soil, and reasonable transportation costs between Guam and other nearby east Asian countries.

Increased airline services will become a reality when the market exists for it and at this time, tourists represent the quickest and most logical means by which this can and will occur. Guam's sophisticated expanded international airport facilities and proximity to other Micronesian points

(Republics of Belau and the Marsballs and the Federated States Micronesia) makes it the logical focal point for regional flights into the outlying areas of Micronesia and points beyond.

There has been a renewed interest in Micronesia because of the areas close ties with Japan prior to World War II and the military battles during the war. With Guam as a transportation nexus, tourists will find it easier to access these more than 2,000 islands.

5) Guam as a Business and Financial Center

Guam has most of the assets (well-developed infrastructure, communication links, international banks, etc.) needed to become a major U.S. business center in Asia. The primary remaining weakness is the limited number of flights to other business centers and markets in the region.

The elimination of travel restrictions such as the current visa requirements will, with an aggressive promotional effort by Guam, increase the demand for more air service to the island. As airline service from multiple locations in Asia increases, the potential to develop Guam as a business and financial center in the region is greatly increased. Guam's development into a business center for U.S. corporate regional offices servicing their Asian interests will represent major cost savings for the companies, and the foreign exchange implications for the United States would be substantial. It will also diversify

Guam's private sector beyond its predominant reliance on tourism and accelerate the movement toward economic self-reliance.

B. Advantages to the United States

1) Reduced Federal Funding

In 1984, approximately 30 million dollars in tax revenues were generated by Guam's tourism industry. This figure represents 17 percent of the local government's revenues for that year. In efforts to lessen its dependency on the U.S. Federal Government, Guam is working to create a stronger private sector labor force. The visitor industry, for example, now provides 20 percent of all private sector jobs.

Extremely conservative growth estimates (based only on known plans) indicate that 500 hotel rooms will be added in the next five years, and that the number of visitor arrivals will increase by 56% to at least 500,000. Based on 1982 dollars, these tourist will spend over $355.5 million annually, or a projected $475 million to be spent in 1986.

By 1987, Guam could be bringing half a billion dollars back into the U.S. economy. This estimate, based on the present tourist industry does not even attempt to project the significant positive impact of the elimination of tourist visas for selected countries. The additional foreign currency that Guam could draw annually into the U.S. economy through investment and tourism in the coming decade might

double this amount if the intent of Congress is followed with regards to the visa waiver issue.

2) Economy to Support Military Presence

Since the turn of the century, Guam has served as a base for the United States military. The Twenty-five years that followed the Second World War witnessed an island economy dominated in many respects by the United States Navy and Governors appointed by American Presidents. Guam has had political control of its own destiny, both politically and economically only since 1970.

With the political restructuring of the Pacific, the dismantling of the United Nations Trusteeship over the islands of Micronesia, it will be clearly advantageous to the United States to have Guam take the reigns of regional leadership. The more that the U.S. can do to strengthen the economy of its western Pacific territory, the more it solidifies its position vis-a-vis the emerging nations of the Pacific. The U.S. can protect itself from incursions by other nations as it has recently occured in Kiribati, the Gilbert Islands, where the Soviet fishing fleet has negotiated harvesting rights. (Attachment II)

A strong and aggressive local economy which Guam has the potential of developing, will be capable of supporting its own infrastructural needs rather than remaining dependent on federal expenditures for capital improvement projects.

An effective western oriented economy on Guam will

allow the island to support an expanded military presence, including dependent personnel, and thus better serve as a home port to Navy ships in the region. (Attachment III) Such an environment will underscore Guam's role as an example of western capitalism and as a base for U.S. corporations to operate in the region.

BACKGROUND STATEMENT

Guam's economic development over the years has been tied primarily to the Department of Defense and its activities on the island in the and Asian region. Following the withdrawal of U.S. forces from Vietnam, Guam suffered a five million dollar capital circulation loss. At this point, it became obvious that it was essential that Guam diversify its economic base if it were ever to become self sufficient.

Initial efforts for economic development concentrated in tourism and private sector growth. The visitor industry emphasized the Japanese market and private sector expansion concentrated on developing Guam as a business platform for U.S. corporations wishing to do business in Asia. In both areas, restrictions were encountered due to the difficulty in obtaining appropriate visas from U.S. embassies and the limited number of flights to Guam from Asian countries.

Guam obtained legal authority for the easing of visa restrictions through the Omnibus Territory act of 1984, (public law 98-454). The law provides that: "a non-immigrant visa may be waived by the Attorney General, the Secretary of State, and the Secretary of the Interior, acting jointly, in the case of an alien applying for admission as a non-immigrant visitor for business or pleasure and soley for entry into and stay on Guam for a period not to exceed fifteen (15) days, if the Attorney General, the.Secretary of State, and the Secretary of Interior jointly determine that:

1) Guam has developed an adequate arrival and departure system; and
2) Such a waiver does not represent a threat to the welfare, safety, or security of the United States."

Following the Interior Department's Pacifc Basin Tourism Conference headed by Ms. Kitty Baier, an ad hoc bipartisan task force was formed at the recommendation of Mr. William Craig, Regional INS Director from Hawaii. Mr. Craig recommended that such a task force be made up of both private sector representatives and local government officials and that this group work collectively with his local INS Officer in Charge to compile one, comprehensive proposal. The result is an "arrival and departure control system" that addresses security concerns to all, as well as the facilitation of tourism growth from a private sector and local government viewpoint.

OPERATIONAL SYSTEMS OPTIONS

The task force has examined four options for operational systems that will control visitor arrivals and departures. Two of these options were discarded and are briefly described as follows:

1) If Guam were to handle all clearances into the island, Congress would be required to consider legislation to grant the authority to Guam. Such authority has no such precedence. In addition to finding it very difficult to obtain the required authority, the cost of installing such a program was found to be excessive.

2) If the current system were to be continued without major additions to the staffing, the time to process visitors would be so great that any positive public relations would be totally lost.

The viable options developed by the task force are:

1) USINS Control Option - All alien arrivals regardless of status are inspected by INS Officers. The only exception to this is that a by-pass will be provided for the U.S. and CNMI citizens. Structural and or equipment changes will be necessary and will include the relocation of twelve inspection booths, with an additon of four more at a later time. The addition of a desk in the concourse for the by-pass procedure and the removal of the railing between the present crew and the U.S. citizen lines.

Departure control will be handled by as many as four INS personnel through a program of pre-inspection of those leaving on all departing aircraft. Additional equipment will be required including two more inspection booths and four sets of bin racks for collection of I-94 arrival/departure forms.

Enforcement procedures will be handled as they are presently, using normal procedures and regulations. The only exception will be that assistance may be requested from the Guam Police Department.

An information system that will provide timely data to the NIIS system could be installed by the Government of Guam. Arrival and departure of I-94's will be collected daily and will be turned over to the Guam Department of Commerce for data entry. Duplicate information tapes could be forwarded to the NIIS system headquarters in Kentucky within three working days. Daily hard copy listings of number of arrivals, number of departures, and identification by name, nationality, and address of overstays will be provided to INS.

Personnel increases will be required for INS to perform the

designated work. These staffing increase include:

- o Eight (8) full-time inspectors at the GS-9 level.
- o Two (2) full-time supervisor inspectors at the GS-11 level.
- o Two (2) special agent positions at the GS-9 or GS-11 level.
- o One (1) supervisor special agent position at the GS-11 or 12 level.(?)
- o One (1) clerical support position at the GS-5 level.
- o Two (2) Guam Department of Commerce data entry clerks.

The toal anticipated program cost os $ 994,000.

2) USINS/Gov Guam Shared Responsibility Option -- All alien arrivals are separated into two groups in the concourse where U.S. and CNMI citizens by-pass INS inspection. All others are directed to the INS inspection hall. INS and Customs/Quarantine officers will be cross designated for each others inspectional functions. The officers will conduct Immigration inspection and Customs/Quarantine clearance (profile basis) at Immigration using a "green pen, red pen" system. USINS and Customs/Quarantine supervisory personnel will be available in both INS and Customs/Quarantine halls. Secondary staffing will be provided by both agencies.

Structural and/or equipment changes will be necessary and will include the relocation of twelve inspection booths and the later addition of four more. The addition of a desk in the concourse will be added for the by-pass procedure and the removal of the railing between the present crew and the U.S. citizen lines. Departure control will be handled by as many as four INS personnel through a program of pre-inspection of those leaving on all departing aircraft. Additional equipment will be required including two more inspection booths and four sets of bin racks for collection of I-94 arrival/departure forms.

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Enforcement procedures will be handled using INS trained personnel with the Guam Police Department locating illegal over-stays. Under prearranged agreement, Guam Police Department personnel will turn illegal over-stays over to INS

for processing.

Personnel requirement will increase as follows:
- o Eight (8) full-time inspectors at the GS-9 level.
- o Two (2) supervisor inspectors at the GS-11 level.
- o One (1) special agent position at the GS-9 or GS-11 level.
- o Two (2) Guam Department of Commerce data entry clerks.
- o Twenty (22) Customs and Quarantine inspectors.

The training for these cross designation positions will be provided by both U.S. INS and Department of Commerce Customs and Quarantine.

The total anticipated program cost is $ 1,525,200.

COST ESTIMATES

In order to implement an adequate arrival and departure control system that will facilitate the processing of the current number of visitors and can accomodate the anticipated increase in their numbers, it will be necessary to incur several start-up costs to modify the arrival area of the airport, to recruit, train and equip additional Guam Customs officers, and to purchase and program a computer system capable of processing the necessary volume of information.

The costs of start-up, as well as ongoing costs, are detailed below for the two main proposals as follows:

START-UP COSTS	INS ONLY	SHARED RESPONSIBILITY
Arrivals:		
Construction and location of 4 additional inspection modules @ $5,000 each.	$ 20,000	$ 20,000
Relocation of 12 existing modules @ $1,000 each.	12,000	12,000
Signs to direct arriving passengers to appropriate queues	-0-	5,000
Alert lights on each module (16x2)	-0-	5,000
Rubber stamps for entry documents	-0-	1,000
U.S. and NMI resident citizen screening desk in concourse	5,000	5,000

Computer system *	$ 30,000	$ 30,000
Programming *	10,000	10,000
Training of Guam officers in INS procedures	-0-	40,000
Training of INS officers in Guam customs procedures	-0-	5,000
Uniforms and badges for 22 Guam Customs Officers	-0-	5,000
Departures		
Computer system *	30,000	30,000
Programming *	10,000	10,000
Enforcement		
Enforcement -equipped auto x 4	-0-	60,000
Total Start-Up Cost	$ 117,000	$ 238,000

ONGOING COSTS:	INS ONLY	SHARED RESPONSIBILITY
Arrivals:		
Addition INS inspectors (10)	$ 500,000	$ 500,000
Additional INS clerk	20,000	20,000
Additional Guam Customs Officers		
Officer I x 16 @ $ 18,000	-0-	288,000
Officer II x 3 @ $ 20,000	-0-	60,000
Officer III x 3 @ $ 21,000	-0-	63,000
Programming Consultant	5,000	5,000
Keypunch operator	12,000	12,000
Miscellaneous	8,000	8,000
Depreciation	11,000	14,200
Legal counsel for exclusion proceedings	-0-	35,000
Departures		
Keypunch operator	12,000	12,000

Miscellaneous supplies	$ 8,000	$ 8,000
Depreciation	6,000	6,000
Programming consultant	5,000	5,000
Enforcement		
INS enforcement officer x 2	12,000	12,000
Customs enforcement officer x 4	-0-	100,000
Miscellaneous supplies	10,000	10,000
Depreciation	-0-	12,000
Chase and removal costs $ 250 per alien x 100 aliens per month for 12 months	300,000	300,000
Legal counsel for deportation proceedings x 2	-0-	70,000
Total Ongoing Costs	$994,000	$1,525,000

* The initial start-up costs for the computer and for the programming are equally distributed between arrival and departure cost.

DATA PROCESSING/INFORMATION CONTROL

In order to provide for an adquate arrival and departure control system, allowance must be made for detection of visitors who over-stay the authorized 15 day limit. This would be accomplished by installing a mini-computer with adequate memory and memory backup, and hiring two keypunch operators to enter and verify the appropriate information from the I-94 arrival and departure forms. Those individuals who are identified as having over-stayed their authority will have their names and other available information turned over to enforcement officicals for their disposition.

At the end of each shift, the I-94 arrival forms will be gathered from the inspection officers to be processed by one keypunch operator on the day shift. A file entry will consist of the Admission Number and items numbered 1 through 7 from the arrival form; there will be one file created for each arriving passenger. All arrival files for any given day will constitute an arrival record for that day.

At the end of each shift, the I-94 departure forms will be collected from the departure control officers and bundled by flight of departure. The Admission Number (on the departure form) will be used to recall the appropriate file from the preceeding 15 days' arrival records, and items numbered 8 through 10 will be entered to cross-verify the information that they contain.

Printouts will be created daily to indicate arrivals, and departures for statistical purposes, and identify over-stays for purposes of enforcement. Other analysis of the data will be performed monthly and annually to provide information concerning the characteristics (country of citizenship, residence, age, etc.) of Guam's tourist market, and to identify problem areas (flights and countries of residence, specifically) associated with over-stays. This latter may eventually be used in determining high and low risk areas in the Guam-Only Visa/Guam Visa Waiver designations at least in as much as those risk categories apply to Guam visitors.

Once processed all I-94 arrival and departure forms will be sent to USINS central data processing unit in Kentucky.

Should this system prove to be a viable control operation, its methods could eventually be used by INS on the mainland to implement a visa waiver program, for the arrival of visitors from low-risk countries into the U.S. In this respect, the Guam-Only Visa /Guam Waiver program could be viewed as a pilot project, testing the feasibility of such a procedure for nationwide application.

UNRESOLVED ISSUES

In developing arrival and departure procedures regulating the entry and exit of non-U.S./Commonwealth visitors to Guam, three issues remain unresolved. These issues are not within the purview of the task force. The satisfactory resolution of these issues have a considerable strengthening effect on the recommended procedures. They are:

1) Cross Designation: A question remains as to whether or not Government of Guam Customs and Quarantine personnel can be cross desiginated to perform the inspection functions of USINS officers. If this cross designation is not possible, the option describing shared duties and responsibilities would not be practical.

2) Regulation Changes: Currently, seamen visitng Guam wave all rights to the hearing and appeal process and may not

change status once having entered the island. The task force strongly recommends that CFR 214.2b 245 and 248 be amended to include all temporary stay visitors to Guam covered by the Guam provision.

3) Parallel Control System: (Combining a visa waiver and a "Guam -Only Visa system) There is an existing federal statute permitting visa waiver for Guam. The congressional intent may still be enacted by implementing a visa waiver system soley for "low risk" countries. The determination as to which countries are or are not "low risk" shall be made by using the risk designation of the Immigration and Naturalization Service. Because visa waiver does not include any prior screening in the alien's country of origin, immediate implementation of visa waiver for all countries could pose a problem for Guam in terms of control. Visa waiver for only those countries which are classified as "low risk" would pose no overwhelming security problems nor cost implementation problems. In time, when the visa waiver system for these countries has been successful, then a transition towards including more countries under the visa waiver system may be realized.

In the interim period, however, the "Guam-Only Visa" would involve prior screening of the alien in his country of origin. This screening would be a less intrusive, thorough process than normally required. Although most security concerns would still be addressed, such requirements as proof of sound economic status would be relaxed.

"Guam-Only Visa" for these high risk countries addresses security concerns, while at the same time addresses a goal of the visa waiver system - easier entry onto Guam. Although the " Guam-only visa" system does not make the visitor's entry into Guam as easy as under the visa waiver system, it does make it easier to enter then under the current full visa system.

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Pacific Pit Stop

Philippine Rumblings Imperil Bases That Are Ideal for U.S. Military

Subic Repairs Ships Cheaply While Servicemen Take Target Practice or R&R

Scouring Asia for Other Sites

By James P. Stewart
Staff Reporter of The Wall Street Journal

SUBIC NAVAL BASE, the Philippines—One morning in 1906, Ruperto Ramos went to work here repairing ships for the U.S. Navy. His son, Jose, did the same in 1951. His grandson, Ely, began in 1976.

Generation after generation, men with names like Ramos, Pacheco, Azucenas, Ibanez and Rivero have kept first Spanish and then American fleets afloat, fixing everything from sails to sonar. Some 6,500 of them work here now: electricians, welders, machinists, carpenters and other skilled tradesmen toiling exclusively for the Navy, scrambling aboard the 70 warships that call in an average month.

They work double shifts, weekends and holidays without quibbling. If a job isn't finished, they will go to sea with the ship until it is. They do dirty jobs that stateside repair crews try to avoid. They are masters at jury-rigging. And they are cheap. Jose Ramos, who is a foreman with 34 years' experience, earns the equivalent of $1.80 an hour.

Skilled, hard-working repair crews are the main reason Navy skippers love to steam into this beautiful, mountain-fringed cul-de-sac harbor north of the Bataan Peninsula. But it's not the only one.

Something for Everyone

Around them, Subic Bay has grown like a shopping mall at the right intersection. From a tiny Spanish coaling station in 1884, it has turned into the largest and arguably the finest one-stop vendor of naval services the U.S. has overseas. Its on-base work force of 34,000, and the 246,000 people in the adjacent town of Olongapo cater to every Navy need: repairs, fuel, supplies, armaments, recreation, liberty, training, target practice, instrument calibration and fresh produce. It is convenient, efficient and a bargain.

And the Navy is loath to talk about giving it up.

Looming, however, is the specter of a "lost our lease" sign. Not since World War II has the prospect of the U.S. military's being forced out of this former American colony been taken so seriously.

The agreement between Washington and Manila permitting use of Subic Bay, nearby Clark Air Base and some smaller facilities doesn't expire until 1991. But the regime of President Ferdinand Marcos may expire much sooner, and there are lots of unfriendly people, including a fast-growing Communist insurgency, vying to take power next. They could politely ask the Americans to leave. Or they might kick them out.

Many Marcos opponents want the U.S. to pull out immediately. They argue that Washington propps up a corrupt and abusive regime with hundreds of millions of dollars in "aid," in the form of military and economic aid. Others fear the bases would make the Philippines a priority target in a nuclear war.

There is enough uncertainty that the Reagan administration, three years ago, quietly began scouting the western Pacific for alternatives. Friendly governments have been approached. And the U.S. has moved to lease potential replacement lands and facilities on Guam and in the islands of the Northern Marianas and Micronesia.

In the process, people in Washington who tended to take Subic and Clark for granted have begun to learn how valuable they are and how costly their replacement would be. Although nobody argues that the bases' function can't be recreated elsewhere, the costs and problems of relocation would be monumental.

Global Politics

The estimated price tag for replacement facilities elsewhere: up to $5 billion at the moment. Time required: perhaps eight years. Operating costs elsewhere: through the roof. Strategic implications: now that the Soviet Union has a foothold at Vietnam's Cam Ranh Bay, possibly ominous. Political fallout for an evicted America: worrisome.

These are Washington's concerns. At the bases themselves, there is much less geopolitical hypothesizing. These places are treated with declarations that the people stationed here, because they are relative paradises for military work and play, likening would eliminate what makes them so nice: A hard-working, English-speaking local population that gets along with Americans and works for far less than the U.S. minimum wage.

The U.S. armed forces are often forced by protectionist pressures to buy U.S. goods even if imports are better and to use U.S. labor even though foreign labor is cheaper. Not here. These bases are a budget cutter's dream.

Servicemen posted here can bring their families. They flock here because housing is relatively cheap and even enlisted men can afford servants. There are schools on base. The Air Force welcomes U.S. arrivals with a brochure that says, "Get ready for what's been called one of the Air Force's really good deals. It's so good that Clark Air Base has the highest extension rate in the Air Force."

And it isn't just good for recruits. At

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Pacific Pit Stop: Philippine Rumblings Jeopardize A Base Setup That Is Ideal for U.S. Navy, Air Force

Continued From First Page

mate's Crow Valley, a mock enemy airfield is built and rebuilt from cane and bamboo for pilots to practice bombing and strafing. Put together and maintained by local inhabitants who are paid for their labors in rice, says a Clark briefing paper, "their targets cost about a tenth of what they would in the States."

Convenience is the other prime military asset. Together, Subic and Clark amount to an all-service pit stop, well located near the intersection of the Pacific and Indian oceans. Scattering their functions about the region, which is the most likely alternative, would hurt military effectiveness simply because it is possible here to do so many time-consuming things at once.

When a carrier arrives at Subic to undergo maintenance," notes Robert L.J. Long, a retired admiral who once commanded U.S. Pacific forces, "its aircraft pilots can train at the sophisticated Crow Valley weapons range at Clark." An average of 12 ships and 9,000 sailors and Marines are in port at Subic at a given time. While repairs are being made, there is something useful for everybody to do.

Plenty of Targets

At the Zambales Range, just north of Subic, Marines can storm beaches. Their support ships can blast away with their big guns or missiles. Pilots can bomb and strafe with live ammo. For battleships and others that might need target practice, Subic provides several small uninhabited islands. For the sick, an 84-bed hospital attends to most problems without the need to airlift anyone home.

Besides many classified communications and listening stations on base and nearby, the Navy has its largest overseas supply depot here. Its $425 million inventory of 300,000 line items includes everything from battleship gun barrels to dog food. It is the major supply point for the U.S. naval facility at Diego Garcia in the Indian Ocean, sending it 6,000 tons of supplies each week.

Some 2.4 million barrels of ship and plane fuel can be stored in 46 tanks, and a 10-inch pipeline carries aviation fuels across a mountain range to Clark. Nine thousand acres of hillside jungle are set aside for storing ammunition. Its magazine will hold 56,000 tons of ordnance, the Navy says; it won't say whether nuclear weapons are among them.

A Lot to Do

Policy makers tend to discount the need for rest and recreation facilities, but the Navy says they are vital for morale. And Filipino "hospitality" is unmatched elsewhere in Asia. Hong Kong and Singapore are nice for shopping, but modern-day Suzie Wongs have become Asian yuppies, making more money at jobs like selling computers than they did in bars. The old Asian R&R bars from the Vietnam era have thus mostly disappeared, leaving Subic as probably the only place west of Hawaii where 15,000 to 25,000 American sailors and Marines can be loosed on liberty at once without risking an international incident.

The city of Olongapo, with more than 300 bars, restaurants and nightclubs and some 15,000 "hostesses," caters to Navy liberty almost exclusively. For the less affluent, inside the base's gates is a giant recreation center staffed by some 1,200 Filipinos.

"Over the years, we have built the largest complex of recreational facilities to be found anywhere in the world," says the booklet given out to arriving sailors.

Included are six air-conditioned theaters for movies, plays and USO shows, a go-cart track, an 18-hole golf course, an 18-hole miniature golf course, a skeet- and trap-shooting range, an archery range, a riding stable offering lessons in both Western and English styles, an 800-seat gymnasium, 14 tennis courts, eight racketball courts, seven swimming pools, two bowling centers, hobby shops, billiards rooms, libraries, a recording studio and even a pet motel. Clark's facilities are comparable.

Also on base are three swimming beaches and rental boats for fishing, water skiing and sailing. A 25-minute boat ride puts one on Grande Island, a military resort with its own hotel and cottages, coral reefs for snorkeling and scuba diving, ball fields, tennis courts and a nine-hole miniature golf course.

Shipyard Spinoff

All this has built up around Filipino workers who repair ships. "If it wasn't for the Ship Repair Facility, the rest of this wouldn't be here," says Ronald J. Simon, the repair center's administrative services manager and one of 80 supervising U.S. civilians who run it for the 140 Navy officers in command.

"I know of no more professional group anywhere in the world," former U.S. Ambassador William H. Sullivan wrote recently. He argues that, by and large, Filipino workers are better than their state-side counterparts.

"Workers in American shipyards are a new breed. Gone are most of the old civil servants and master craftsmen who staffed our yards up to and through World War II. In their place are mostly short-timers and drifters who take shipyard work when they cannot find something better to do. Their dedication to professional standards leaves much to be desired."

Mr. Sullivan estimates that shipyards on the U.S. mainland cost eight times more for a job than Subic's. "If one also understands that the quality of work is better at Subic, the ratio may be even higher," he says. As for Japan, testimony to a U.S. congressional committee has estimated the cost of a work shift in Japanese shipyards at seven times that at Subic.

Workers' Stories

Jose Ramos's 1951 starting wage was 3 to pesos a day, then equal to $1.80. Now he earns 32.35 pesos (worth $1.80) an hour. Though he is a little better paid than his counterparts in Philippines shipyards, he says their benefits are better and status higher.

But he sticks to the U.S. Navy. It has sent him to California for special training. He has turned down job offers in the Middle East, where he could earn more money.

Mr. Ramos and his family now are middle class. His wife has a trading business, and their house is large enough to include two apartments they can rent to Subic sailors. He has a telephone, a color television set, a videocassette recorder, and a new car.

Benjamin C. Ibanez, whose father was a driver for an American colonel, began working here as an apprentice machinist in 1960. The Navy has sent him for work and training to San Diego, Guam, Pearl Harbor and Yokosuka in Japan, so he can speak with some authority about differences in work habits.

"Here, it's a matter of holding on to a good job and the economic stability that comes with it," he says. "So our people work themselves to death. In the States, Friday comes and everybody wants to be someplace else, and they're gone. Here we keep on working to make sure the ship is ready to move to its commitment."

Mr. Ibanez, who is 50 years old, has saved the Navy a lot of money. He designed and helped build a shop here that economically produces rubber gaskets and seals for both surface ships and submarines.

Like the others, Alberto Azucenas, who has worked here since 1953, discounts Filipino sentiment against the Americans and their bases. But he concedes that the closeness of the war years, when Filipinos and Americans fought side by side against the Japanese, has faded. A big majority of the 52 million people in the Philippines are too young to remember the war years. Half of the population is under 18.

"We are having some hardships now, and the young ones want to put the blame on somebody," he says. "Every Filipino who has tried to get a visa at the American Embassy comes away with a bad taste. They give you headaches. They don't trust you. People have resentment."

Americans, he says, have become a convenient target to denounce. But he adds: "What they are saying is not what they are thinking."

Representative LUNGREN. Thank you, Mr. Perez. Mr. Segal.

STATEMENT OF STEVEN F. SEGAL, PRESIDENT, SIGALLO, LTD., NEW YORK, NY

Mr. SEGAL. Thank you, sir. On my right, I have my attorney, Mr. Harvey Isaacs, who has been with me since the beginning of our Guam operation.

This testimony is being made with some bitterness and much frustration. We started our factory in 1981 under the auspices of headnote 3A, our flaw, and three separate rulings of the U.S. Customs Service.

These rulings, the i's dotted, the t's crossed, said that we could produce what Guam always wanted—the first manufacturing base. We took a bare building, a factory. We put all the equipment necessary in it—boilers, sewing machines, electrical equipment, pressing machinery, everything for a factory.

We took every worker, 300 today, and trained them from 6 to 16 weeks. We brought our executives in from the United States—at great cost. We could not bring them in from Hong Kong, a 3-hour flight or 5-hour flight, because we were under U.S. wages, under U.S. Immigration and under U.S. law.

These were the rules. We were satisfied with them. Now that we did all of this, we got the easy portions out. Now, the difficult portions—manufacturing. Guam is in a very difficult logistical place. We lacked the support industries of any factory. The needs. When boilers break down, the needles, all the simple things the U.S. factory has, we did not have. We had nothing to work with; yet, we made it successful.

Today, between our manufacturing, 150,000 dozen sweaters a year. The startup of this operation cost us over $1,500,000—a small entrepreneur, which I am and we are, and it's almost broke us.

In 1984, we started making a profit. And then, at the snap of the finger, new country of origin rules came into effect. And the sweaters that were manufactured in Guam, supposed manufactured in Guam in August. As of September, they were manufactured in China. And we were told that we could no longer manufacture this merchandise.

True, we are treated now as a foreign country. Commerce Department, with the help of the offices here, were nice enough to grandfather us into our current manufacturing facilities and gave us a 160,000 dozen quota. So that we may continue in business.

However, this merchandise is still considered made in a foreign country. Therefore, Customs says to us now:

> Forget the rules that we gave you 3 years ago. Forget that we said you could start. We're changing those rules now, and we'll give you a change of practice. You are now going to have to pay duty on these U.S. sweaters, made from U.S. people there.

Customs is contemplating a change of practice, which will put this into effect. As sure as I'm sitting here, I know that change of practice will come about. That means, when our American workers, at U.S. wages, we're going to have to pay duty.

In essence, when the laws were put in so that we could compete with foreign labor, our headnote 3A said we could compete foreign labor. This is all we peeled after the fact.

Through the wonderful offices of Delegate Blaz, he has introduced law 2225, which will give us relief. But, we are fighting the U.S. industry. We still do not know the fate of this bill.

As a further insult, the current move of Congress has a Trade Act, H.R. 1562, and S. 680, which are going to roll back imports. They exclude Canada. They exclude EEC countries. They exclude the Caribbean Basins, but they include all foreign countries, including Guam.

The summation of it is that we are under U.S. laws, under U.S. wages. We're under U.S. rules. And for all other purposes, we are treated as a foreign country. All trade bills treat us as a foreign country.

I guess, for Guam, the Guam people are good enough to fight and die for the United States, but they're not good enough for work to the United States.

As a businessman, as advice to further invest in Guam, for everything that we have done, it is not the brightest thing to do, because we in Guam are all fighting ourselves.

Delegate Blaz has been the forefront of the fight in Congress, but it's only when it doesn't affect someone else. Thank you.

[The prepared statement of Mr. Segal follows:]

PREPARED STATEMENT OF STEVEN F. SEGAL

Mr. Lungren and members of the Committee, I am pleased to testify before you in regard to impediments and inducements to business development on Guam. My name is Steven F. Segal and I am Chairman of Sigallo-Pac Ltd. of Guam and President of its United States parent, Sigallo Ltd. of New York City. Sigallo-Pac is a manufacturer of men's knit wool sweaters. We are the sole garment manufacturer in Guam and the largest single employer on the island.

The company was formed in Guam in 1981. Establishing it as a going concern was considerably more difficult and costly than anyone could have anticipated. Prior to this, it was of critical importance to obtain, in advance, rulings from the United States Customs Service that the sweaters which we planned to manufacture from foreign components, qualified as a product of Guam and were entitled to duty-free treatment under General Headnote 3(a), Tariff Schedules of the United States (TSUS), covering products of insular possessions. The plant

was established in reliance upon the rulings we obtained. In all, we secured three rulings, holding in each case that the work done by us was a substantial manufacturing process and hence, our finished sweaters were a product of Guam, U.S.A. and could be imported duty-free.

When our operation started, there was not a single trained sewing machine operator in Guam. Such training was both difficult and costly. It was necessary to bring in supervisory and training people from the U.S. mainland - at substantial salary incentives to relocate - to engage in all aspects of worker training. Thus, every present employee represents an extremely large outlay for training: each of them requiring from 6-16 weeks at pay scales substantially above U.S. minimum wages. Today, we have 300 workers and an investment of approximately $1,500,000 in start-up costs. This figure continues to mount because of a high labor turnover.

Creation of our physical plant presented some special and, once again, costly challenges because of Guam's location. In this remote Possession, 7 air hours from Hawaii, we acquired a bare, unused warehouse and converted it into a modern factory. This entailed (besides the gutting and rebuilding of the interior) the installation of textile machinery, boilers, electrical lines, washing and pressing equipment, etc. Our

investment in plant and equipment far exceeded our initial estimates.

In addition to our employees in Guam, we have 75 employees in New York supervising the administrative and sales aspects of the business.

In the summer of 1984, we finally turned the corner and all this cost, time and effort culminated in the first successfully-operated apparel manufacturing company in the history of Guam (or, for that matter, any other insular possession). Our modern air-conditioned plant has been described by the United States Department of the Interior as "a model factory" epitomizing the Administration's goal for the economic development and independence of Guam.

But our work in Guam is only part of the story -- we also had to find a market for the products from our new facility. Although we had a long-standing reputation in the United States, it was necessary to meet and overcome our customers' natural resistance to products from a new location, previously unheard of in the garment trade. We are proud that our sales efforts were successful. Our sweaters carry such well-known brand names as McGregor, Wrangler and Dunlop, and are sold in stores throughout the country.

However, this too was accomplished only by developing new skills and techniques to meet the logistical difficulties, imposed by Guam's remote location, on the flow of raw materials into the plant and the timely shipment of the finished product to our customers. For instance, a five-month lead time is required to order the yarn for the fabrics used in our sweaters. This requires extremely long-range planning and entails substantial additional financing costs. Moreover, it takes 45 to 50 days for shipment of the finished product to our warehouse in the United States, almost twice the shipping time from Hong Kong or Taiwan. I might add that we use only U.S. Flag vessels.

I should also mention that on Guam, we started operations totally devoid of the usual supporting industries and trades - mechanics, repair services, spare parts suppliers, etc. - that are normally found in a garment manufacturing center. These resources had to be developed locally, or failing that, can only be acquired at great expense. For instance, replacement sewing machines needles, which are immediately available in the mainland, require shipping times of weeks or months.

What we created literally from scratch is now threatened because of the "war" being waged between foreign and domestic

wearing apparel textile producers over U.S. market shares. Every one of our workers is a U.S. citizen or resident paid substantially above minimum wages, and we are treated as if we were a low-wage foreign factory. In this conflict, we are a part of America caught in the cross-fire of close hostilities between the major textile exporters and the United States domestic producers. We are a "hybrid" operation, if you will: we use imported components in Guam, but the labor which makes the garments on the island is American and paid at or above that of workers in the States. In addition, Sigallo's 75 employees in New York, servicing this and other aspects of our business, represent an annual payroll of approximately $1,500,000. We are also a major customer of the port of Charleston, S.C., and the public warehouses we use.

GUAM'S CURRENT QUOTA SITUATION

On May 9, 1984, President Reagan issued an Executive Order intended to toughen administration of the United States textile import program. Subsequently, in response to this directive, the Customs Service issued interim "country-of-origin" regulations, which were made applicable to shipments from foreign countries and insular possessions, and which, as applied to Sigallo-Pac's shipments, created the legal fiction

that when our completed sweaters are imported into the United States, they should be treated "as if" they were shipped here directly from the country of production of the components. The new regulations produced the astonishing result that in the sight of Customs, Sigallo-Pac and Guam simply ceased to exist.

As a result of negotiations between the government of Guam and the Administration and based upon our past shipping history, the Committee for the Implementation of Textile Agreements (CITA) announced on March 4, 1985 that a quota of 160,000 dozen cotton, wool, or man-made fiber sweaters assembled in Guam would be permitted entry into the United States for the year ending October 31, 1985. The legal authority for this action was 7 U.S.C. 1854, a statute which authorizes the President to negotiate textile and textile product quotas "with representatives of foreign governments". So, under another startling legal fiction, Guam, an insular possession of the United States, became a "foreign government". Nonetheless, without this quota and the cooperation of the Commerce Department and other agencies concerned, we would have been out of business today.

Not long after the current quotas were announced, the Customs Service published its final textile-product rules of origin which, over many objections, including those of Federal

agencies charged with responsibility for administration of Guam, retained the insular possessions within their scope. Customs rigidly insists that the trimming and joining together of otherwise complete knit-to-shape component parts by sewing and linking, even when accompanied by other processes such as washing, pressing, mending, etc., do not constitute a "substantial transformation" of the components into sweaters in Guam, and accordingly, garments so assembled would not be considered a product of Guam. Customs' position in this respect is completely inconsistent with the conclusion reached in the earlier rulings we obtained from the Government before we built our company, which qualified Sigallo-Pac's sweaters as a product of Guam under General Headnote 3(a). In fact, one ruling said that it was not enough to "substantially transform" the components in Guam - - that a tougher test must be met, namely, that the components be subjected to a "substantial manufacturing process" (Headquarters Ruling Letter 071303 of June 16, 1983). Thus, before the new "rules of origin" were promulgated, what we were doing in Guam was considered to be more than a substantial transformation, but by some bureaucratic legerdermain, the same work has been reduced to something less than a substantial transformation.

Now, in a Federal Register notice of August 2, 1985, Customs advised the public that a "change of practice" notice

was legally required to complete the exercise commenced in 1984 and will result in our sweaters becoming fully dutiable. Of course, we are registering vigorous objections to this de facto repeal of General Headnote 3(a), but we are almost certain that having placed the noose over our head, Customs will spring the trap and conclude that our sweaters are fully dutiable at the same rates for such sweaters when shipped from the country-of-origin of the components. Such treatment spells the end to Sigallo-Pac's operations, because we cannot compete with similar sweaters imported directly from Hong Kong, China, Taiwan or any other Far Eastern country, made with the use of low-wage foreign labor.

We were induced by the government to invest in and train American workers - - after the fact we are included within arbitrary regulations which threaten to destroy us. If only in the interest of American fairness to fellow Americans, we will urge Treasury, and I earnestly beseech this Committee to join us, to do the following:

(a) Immediately exempt our insular possessions from the rules of origin.

(b) Alternatively, publish the change of practice, but include an exception for the insular possessions; or

(c) Because remedial legislation is under consideration by the Congress, delay application of the new rules-of-origin for duty and marking purposes to the insular possessions pending passage of the bill.

REMEDIAL LEGISLATION, IN THE FORM OF H.R. 2225, SHOULD BE PROMPTLY ENACTED BY THE CONGRESS

To prevent the demise of the textile industry on Guam, Congressmen Blaz and Frenzel have co-sponsored H.R. 2225, presently pending before the Subcommittee on Trade of the House Committee on Ways and Means. This bill would revive the obligations which the United States has historically exercised towards its Flag Possessions, specifically in regard to the special tariff status afforded their products (a policy dating back to 1902); it would preserve the present duty-free status for such products, but would leave in place those import quota restraints imposed by the Administration. As we testified before the Subcommittee on Trade, only H.R. 2225 will keep us in business. The urgent need for this remedial legislation is underscored by the damage already done by Customs' threats to make our products fully dutiable. I refer to the cloud upon our plans to sell and ship goods; to the noticeable loss of confidence in us by our customers, banks and other financial institutions; and to the decrease in employee morale both here and in Guam.

We made a business decision to build a company in Guam. We complied with every law and met every challenge. Although each facet of building the factory was more costly and time-consuming than anyone could have possibly predicted, we still felt our decision was correct and believed we had the full support of the United States Government. Should the Congress fail to pass this remedial legislation, I have no hope for our business, or for the eventual economic independence of Guam. If Sigallo-Pac ceases operations, the social and economic consequences would be devastating. Our annual payroll in Guam, in excess of $1,800,000, would be lost to the island's economy. Those workers thrown into idleness would be hard-pressed to find other jobs and contribute to an increase in Guam's present high unemployment rate; it would also increase Guam's public assistance outlays, largely U.S. - subsidized. Worker dependency would increase; worker contribution would lessen. Service industries would also be hard-hit -- Sigallo-Pac is the second-largest shipper on the island, and generates approximately $700,000 in annual income to U.S.-flag lines. Other sectors, such as the local power company and the Port Authority of Guam (including stevedores and longshoremen), would also be hurt by the loss of substantial revenue. The chances of Guam ever again attracting

private investment capital for manufacturing would be virtually zero, and its requirements for continued monetary assistance from Washington would doubtless increase.

THE ADDITIONAL THREAT POSED BY THE "TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985"

As if the "rules-of-origin" assault upon our business by Customs were not enough to contend with, we also face the threat posed by the companion bills H.R. 1562 and S.680, the "Textile and Apparel Trade Enforcement Act of 1985". This legislation, if passed in its present form, would apply to insular possessions and restrict shipments of our present line of sweaters to an arbitrary amount. Worse yet, because of an absence of any "shipping history", new apparel products would be subject to quotas so minute as to be commercially meaningless; consequently, there could be no expansion and the island's industry would stagnate.

I find it shocking and inconceivable that Guam should be treated as a foreign country under these bills, while Canada and the member nations of the European Economic Community are totally exempt from their operation, and the countries designated as beneficiaries under the "Caribbean Basin Economic Recovery Act" receive more favorable treatment than Guam. We have already testified that this legislation should be amended

to exclude the insular possessions from its scope. I hope that the members of this Committee can support us, and protect the legitimate interests of Guam, in amending these bills accordingly. We are not orphans and it's time Guam was treated with the dignity and respect it deserves.

Representative LUNGREN. Thank you very much, Mr. Segal. Mr. Sanchez.

STATEMENT OF SIMON A. SANCHEZ II, DIRECTOR, GUAM CHAMBER OF COMMERCE

Mr. SANCHEZ. Congressman, I have two different topics to talk about. One is the chamber's position on Mr. Segal's exact problem, and then a second element would be we will turn from textiles to tuna, if you will permit me.

Let me talk first about textiles.

Under the headnote 3A program of the U.S. Tariff Code, manufactured goods from Guam are allowed to enter into the Customs Territory of the United States free of duty with the provision that at least 30 percent of the producer's value has been added in Guam.

The original intent of this program was to create jobs for Americans on Guam by attracting investments in manufacturing and export-creating industries. Unfortunately, the goal of this Federal trade program, or the goals, have not been met.

In the early 1970's, under headnote 3A, Guam became a very active manufacturer of watches, with over 1,000 American residents employed by 10 different watch companies. However, the Federal Government soon imposed quotas on the export products made by Americans on Guam. Consequently, the number of companies finally dwindled down to one, and the last company was finally run out of business by a new Treasury regulation. A once flourishing industry ceased to exist due to inconsistent Federal actions.

Once again, the effectiveness of the headnote 3A program is being challenged. A U.S. sweater manufacturer recently set up business in Guam—and we are speaking about the same one, Sigallo—so that they could make sweaters for U.S. trade assembled from parts imported from Asian countries under headnote 3A. The manufacturer's efforts were quite successful in that the plant was soon employing almost 300 people, all of whom were citizens or permanent residents of the United States who earned in excess of the U.S. minimum wage, averaging $5 per hour.

Undoubtedly, the success of this firm could lure other garment manufacturers, particularly U.S. manufacturers currently operating in Asia. Unfortunately, while U.S. Customs had ruled that the process of assembling sweaters in Guam did in fact constitute manufacturing with substantial transformation, our good friends of the Treasury issued interim textile rules regarding country of origin, which provide that when an article of apparel is assembled in Guam from parts that come from countries with textile quotas, despite substantial transformation on Guam, the completed article is counted as coming from the country furnishing the original raw parts.

Well, this regulation would close down Guam's nascent textile industry. However, the U.S. Trade Representative and the Trade Policy Committee recently agreed on a limited exemption to the regulation. The U.S. Territory of Guam was placed by its own country under a quota of 160,000 dozen sweaters for a 12-month period.

Well, this action saved the one company already in operation, although the quota is less than the current capacity and is much less than the level of planned production. The new rule, however, left no room for any other textile manufacturers to invest in Guam and froze employment at the current levels. Once again, the production by Americans on Guam for sale to other Americans was subject to quote limitations.

As with Guam's short-lived watch industry, it appears that any time a Guam manufacturing operation becomes successful under headnote 3A the Federal Government takes action to limit or prevent the continued success and growth of the operation.

Subsequently, Guam's ability to attract jobs from Asians to Americans is greatly diminished in the eyes of potential investors. At a time when the United States is trying to bring jobs back to our country, Americans on Guam are slapped with quotas. Why? We ask. When certain industries left the Eastern Seaboard for the Western Sun Belt, or for Long Beach for that matter, Americans on the West Coast were not subjected to quotas. We now encourage Toyotas and Datsuns to be assembled by Americans in America.

Are we going to count their productivity against Japan or Japan's actual imports? But this is going to happen to Americans on Guam.

With over 25,000 Guamanian Americans dependent on some sort of Federal transfer payment and with an unemployment rate of 12 percent, jobs are of critical importance, and these, by the way, are American jobs. Let Guamanian Americans earn a living from productivity, not from Federal handouts. Save the subsidies for the Treasury or spend that same money on economically depressed industrial areas that need the money for retooling or reinvestment.

The particular solution to the problem of the textile industry in Guam would be the enactment of Delegate Blaz' bill, H.R. 2225, as it is being currently amended, which has been introduced. This would amend general headnote 3A by adding a new section providing that any article of wearing apparel, if assembled in an insular possession of the United States by joining together otherwise completed knitted-to-shape component parts of foreign origin, shall be treated as if such article is a product of such insular possession.

This would protect textile manufacturing in Guam under headnote 3A. Not only could the firm now operating go ahead with plans to increase production and hire more employees, but other manufacturers could also go into business with reasonable assurance that they would not face arbitrary closure under a new Federal change of heart. Guam's fragile economy would benefit greatly from such Federal action, thus alleviating the territory's dependence on Federal aid.

Of course, the larger solution would be to enact legislation which would exempt firms operating in Guam under headnote 3A from future quota restrictions on any product. Currently, Delegate Blaz' bill is restricted to textiles, but we would like to prevent any reinterpretation of the law which would shut down or badly hamstring any new Guam industry lawfully set up under headnote 3A.

It is highly conceivable that if the necessary amendments to headnote 3A are made, Guam could become a manufacturing center in the western Pacific, the underlying rationale behind

headnote 3A. Guam's dependence on Federal aid would thus be reduced, Americans would be employed, Asian imports lessened, and both the United States and Guam would benefit.

Would you like to hear about tuna?

Representative LUNGREN. Why not?

Mr. SANCHEZ. All right.

Representative LUNGREN. It is getting near dinnertime anyway. [Laughter.]

Mr. SANCHEZ. I will try to make this brief. I am trying to cut some of the paragraphs out here.

Basically, given our location in the Pacific and the fact that we are surrounded by the ocean, it is pretty logical for us to seek the development of the ocean.

Tuna is a migratory species and as a species, maybe for the wonderful weather out there, they started to move out to the western Pacific. The annual tuna harvest from the western Pacific is approximately one-half of 1 million tons, which yields an annual value of $500 million. For Guam alone, it is estimated that the tuna industry brought over $50 million into Guam's economy, resulting in over 400 jobs and tax receipts to the government of Guam in excess of $4 million.

The application of certain Federal regulations, however, directly impede further fisheries development on Guam. While there are other Federal policies that adversely affect fisheries, the following three are of most immediate concern.

The first one has to do with crew shore leave in the Immigration and Nationality Act. Certain provisions of that act, as apply to Guam, prohibit alien crew members on board U.S.-flag tuna vessels from temporarily disembarking for shore base and recreation on Guam.

However, the same alien crew members, if aboard non-U.S.-flag vessels, they are allowed to disembark vessels on Guam for shore leave. Indeed, on many occasions a U.S. vessel has been moored adjacent to a foreign vessel, and the crew of the foreign vessel are allowed shore leave while the crew of the U.S. vessel are not allowed to get off the boat.

As a result, U.S. tuna vessel owners are discouraged from porting on Guam, since their crews enjoy no shore leave. Consequently, they often port elsewhere and we suffer the loss of revenue.

These provisions of the Immigration Act constitute a severe impediment to the development of the fishing industry on Guam and must be amended so as to treat alien fishermen of the U.S. and non-U.S.-flag vessels on an equal basis.

The original purpose of this law was to prevent illegal immigration of aliens from South America on tuna boats through San Diego in the late forties and early fifties. Clearly, the purpose of such law is not served by its application to Guam. Guam is not a point of entry to the United States for aliens, and it is quite a long swim if you jump ship.

A temporary exemption now exists. The permanent solution, however, would be the enactment of Delegate Blaz' bill H.R. 2224, introduced this year. This measure provides for a permanent exemption to the specific exemptions of the Immigration Act which creates this problem with alien crewmen. This temporary exemp-

tion expires at the end of the year, so we need to work very quickly to make it a permanent exemption through law.

The second element that affects the tuna industry is the Jones Act. As it applies to Guam, it requires that any shipping between Guam and United States points be conducted solely on U.S.-flag vessels. Guam is the only American-flag territory that is subject to the provisions of this law. It doesn't apply to the Virgin Islands, American Samoa, the Northern Marianas, nor the three associated states of Micronesia.

Guam seeks—at least, the chamber of commerce seeks—a limited exemption of the Jones Act with regard to the transport of tuna only from Guam to United States ports on non-U.S.-flag vessels. Under the Jones Act, tuna seiners in the Port of Guam are forbidden to offload their catch onto foreign fish carrier vessels for transshipment to United States canneries in Puerto Rico or the west coast.

Shipping costs from Guam to United States ports on non-U.S.-flag vessels can be cheaper, but more importantly, current routes by U.S.-flag ships simply don't go to the ports we need to go to, such as Puerto Rico.

Accordingly, tuna seiners, to escape the Jones Act, go just 100 miles to the north to our American sister territory, Tinian, in the Commonwealth of the Northern Marianas, so that they can offload their tuna to foreign fish carrier vessels for shipment to the United States west coast and Puerto Rico. This different applicability of the Jones Act between two adjacent U.S.-flag territories places Guam at an extreme and unfair disadvantage.

For the purposes of fisheries development, it is enough if the Jones Act is amended to permit non-U.S. shipping of fisheries products. However, it is certainly reasonable to question whether the Jones Act in its entirety should apply to Guam, since it does not fully apply to other U.S. territories, like the Northern Marianas or American Samoa. Guam should be on an equal legal footing with its American-flag neighbors.

And I want to add here that the chamber recently changed its position on the Jones Act. Before we wanted to open it up completely, and now we want to focus it at least initially to tuna. We felt that by limiting it to tuna we would not threaten the dependence on otherwise U.S.-bottom ships to carry our cargo from California to Guam, which is a concern, obviously, of the people in California.

One thing to remember is that 60 percent of the freight that goes between the west coast and Guam is United States military. Therefore—and that has to go on U.S. bottoms by Federal law—the fear that foreign carriers will come in and undercut everybody and take over the freight business ignores the fact that more than half the freight has to be carried on U.S. bottoms.

Therefore, foreign carriers are forced to compete for just 40 percent of the business, and we believe that the current U.S. carriers will do a much better job—because they get the 60 percent of the military cargo right off the top they will do a much better job and have done a good job in servicing Guam, and we really don't fear nonforeign bottoms coming in and taking the nontuna cargo, and that is why we changed our position.

And, finally, this short problem: The application of the vessel documentation laws mandates that vessels over 5 net tons must be built in the United States in order to be documented as a U.S.-flag vessel entitled to engage in the American coastal fisheries within the 200-mile limit.

Given Guam's great distance from the mainland United States and other factors, it is very expensive to purchase fishing vessels made in the United States to be used in Guam's 200-mile area. The net effect is that residents of Guam don't purchase new fishing vessels to be used in Guam.

Fisheries development involving local American residents in local waters is correspondingly thwarted. The vessel documentation laws should be amended to allow vessels owned by bona fide residents or corporate residents of Guam and used within the 200-mile limit surrouunding Guam to be documented as U.S.-flag fishing vessels regardless of where such vessels are built. It should be noted that once again our good neighbors to the north, the Northern Marianas, are exempt from this requirement by virtue of a Presidential proclamation.

In closing, the above three mentioned Federal constraints constitutes the most severe and immediate impediments to the development of tuna and local fisheries on Guam.

There are a number of other recommendations that have been made as a result of studies by various Federal agencies that would result in a prosperous development of Guam's fishing potential. Guam's ocean is the most obvious natural resource to focus Federal development effort.

The problem has not been a lack of studies or investigations, but rather a lack of action in the face of a clear and pressing need to change fisheries-related laws.

[The prepared statement of Mr. Sanchez follows:]

PREPARED STATEMENT OF SIMON A. SANCHEZ II

Mr. Chairman and Members of this Committee, I am Simon A. Sanchez, II, an elected Director of the Guam Chamber of Commerce. On behalf of the Chamber's membership, I welcome this opportunity to express our views concerning various Federal barriers which impede fisheries and trade development on Guam.

REPEAL OF FEDERAL BARRIERS TO EXPANDED FISHERIES DEVELOPMENT

Given Guam's location in the Pacific, its limited land mass area and lack of land resources, it is only logical that we reach out and tap the bountiful natural resources available in the ocean surrounding our island. In the mid 70's, the migration of tuna to our part of the Pacific opened up a potentially vast fishing industry for Guam. The annual tuna harvest from the Western Pacific is approximately 500,000 tons which yields an annual value of $500 million a year. For Guam alone, it is estimated that the tuna industry brought over $50 million into the economy in 1984, resulting in over 400 jobs and tax receipts to the Government of

Guam in excess of $4 million. To sustain the viability of this industry in Guam, various local tax incentives were enacted into law which would continue to make Guam an attractive operations and logistics center for the tuna fleets.

The application of certain Federal regulations however, directly impede further fisheries development on Guam. While there are other Federal policies that adversely affect fisheries on Guam, the following three are of most immediate concern.

TUNA FISHERIES

1. Immigration and Nationality Act: Crew Shore Leave

Certain provisions of Immigration law as applied to Guam prohibit alien crew members on board U.S. flag tuna vessels from temporarily disembarking for shore base and recreation on Guam. The same alien crew members if aboard non-U.S. flag vessels are allowed to disembark vessels on Guam for shore leave. Indeed, on many occasions, a U.S. vessel has been moored adjacent to a foreign vessel and the crew of the foreign vessel are allowed shore leave while the crew of the U.S. vessel are held by Immigration officials as virtual prisoners on board. As a result, U.S. tuna vessel owners are discouraged from porting on Guam since their crews enjoy no shore leave. Consequently, they often port elsewhere. These provisions of the Immigration and Nationality Act constitute a severe impediment to the development of the fishing industry on Guam and must be amended so as to treat alien fishermen of U.S. and non-U.S. flag vessels on an equal basis.

The original purpose of this law was to prevent illegal immigration of

aliens from South America on tuna boats through San Diego in the late 1940's and early 1950's. Clearly, the purpose of such law is not served by its application to Guam; Guam is not a point of entry to the U.S. for aliens.

A temporary exemption now exists. The permanent solution to this problem would be the enactment of H.R. 2224 introduced by Guam's Congressman Ben Blaz. This measure provides for a permanent exemption to the specific sections of the Immigration Act which creates the problem with alien crewmen. Immediate action is critical since the existing waiver granted by INS expires on December 31, 1985.

2. The Jones Act.

The Merchant Marine Act of 1920, (46 U.S.C. 883 and 887), better known as the Jones Act, as applied to Guam requires that any shipping between Guam and U.S. points be conducted solely on U.S. flag vessels. Guam is the only American flag territory that is subject to the provisions of this law. It does not apply to the Virgin Islands, American Samoa, the Northern Marianas nor the three associated states of Micronesia.

Guam seeks a limited exemption to the Jones Act with regard to the transport of tuna (only) from Guam to U.S. ports on non-U.S. flag vessels. Under the Jones Act, tuna purse seiners in the Port of Guam are forbidden to offload their catch onto foreign fish carrier vessels for transshipment to U.S. canneries in Puerto Rico or the U.S. West Coast. Shipping costs from Guam to U.S. ports on non-U.S. flag vessels can be cheaper. More importantly, current routes by U.S. flag ships simply don't serve ports like Puerto Rico, to which Guam needs to deliver fish. Accordingly, to escape the Jones Act, the purse seiners are compelled to travel just 100 miles north to our American sister territory, Tinian of the Northern Marianas, to offload tuna to foreign fish carrier vessels for

shipment to the U.S. West Coast and Puerto Rico. This different applicability of the Jones Act between two adjacent U.S. flag territories places Guam at an extreme and unfair disadvantage.

For the purposes of fisheries development, it is enough if the Jones Act is amended to permit non-U.S. shipping of fisheries products. However, it is certainly reasonable to question whether the Jones Act in its entirety should apply to Guam since it does not fully apply to other U.S. Territories like the Northern Marianas or American Samoa. Guam should be on an equal legal footing with its American flag neighbors.

3. Vessel Documentation Laws and Coastal Fisheries (46 U.S.C. 65).

The application of the vessel documentation laws (46 U.S.C. 65) mandates that vessels over 5 net tons must be built in the United States in order to be documented as a U.S. flag vessel entitled to engage in the American Coastal fisheries within the 200 mile limit. Given Guam's great distance from the mainland United States and other factors, it is prohibitively expensive to purchase fishing vessels made in the U.S. to be used in Guam's coastal waters. The net effect is that residents of Guam do not purchase new fishing vessels to be used on Guam; fisheries development involving local residents in local waters is correspondingly thwarted. The vessel documentation laws should be amended to allow vessels owned by bona fide residents of Guam and used within the 200 mile limit surrounding Guam to be documented as U.S. flag fishing vessels irrespective of where such vessels are built. It should be noted that once again our neighbor, the Northern Marianas, is exempt from this requirement by virtue of a Presidential proclamation.

In closing, the above three mentioned federal restraints constitute the most severe and immediate impediments to the development of tuna and coastal fisheries on Guam. There are, however, numerous other

recommendations that have been made as a result of studies by various federal agencies that would result in a prosperous development of Guam's fishing potential. Guam's ocean is the most obvious natural resource to focus Federal development efforts. (See, for examples, Department of Interior Study on Shipping Laws and Fishing Laws applicable to the United States. Recently, the Department of Commerce finished a similar study and recommendations relating to federal laws and fisheries development on Guam. It is our understanding that the Department of Commerce has endorsed similar changes in Federal law. Thus, we direct the attention of the GAO investigative team to the Department of Commerce study in particular).

The problem has not been a lack of studies or investigations but rather a lack of action in the face of a clear and pressing need to change fisheries-related laws.

AMENDMENTS TO HEADNOTE 3(a)

Under Headnote 3(a) of the U.S. Tariff Code, manufactured goods from Guam (which is outside U.S. Customs jurisdiction) are allowed to enter into the Customs Territory of the United States free of duty with the provision that at least 30 percent of the producer's value has been added in Guam. This program benefits the local manufacturers in two ways: (1) that of being permitted to import raw materials for manufacturing tariff-free, and (2) providing access to our country's markets free of import tariffs and quotas.

The original intent of this program was to create jobs for Americans on Guam by attracting investments in manufacturing and export creating industries. Unfortunately, the goals of this federal trade program have not been met. In the early 70's, under Headnote 3(a), Guam became a very

active manufacturer of watches with over 500 American residents employed by ten different watch companies. However, the Federal Government soon imposed quotas on the export products made by Americans on Guam. Consequently, the number of companies finally dwindled down to one, and that last company was finally run out of business by a new Treasury regulation. A once flourishing industry ceased to exist due to inconsistent Federal actions.

Once again, the effectiveness of the Headnote 3(a) program is being challenged. A U.S. sweater manufacturer recently set up business in Guam to manufacture sweaters for U.S. trade, assembled from parts imported from Asian countries under Headnote 3(a). The manufacturer's efforts were quite successful in that the plant was soon employing almost three hundred people, all of whom were citizens or permanent residents of the United States, who earned in excess of the U.S. minimum wage, averaging FIVE DOLLARS per hour. Undoubtedly the success of this firm could lure other garment manufacturers, particularly U.S. manufacturers, currently operating in Asia. Unfortunately, while U.S. Customs had ruled that the process of assembling sweaters in Guam did in fact constitute manufacturing with substantial transformation of 30% in Guam for Headnote 3(a) purposes, the Treasury Department issued interim textile rules regarding country of origin which provide that when an article of apparel is assembled in Guam from of parts that come from countries with textile quotas, despite substantial transformation on Guam, the completed article counted as coming from the country furnishing the original raw parts.

This regulation would close down Guam's nascent textile industry. However, the United States Trade Representative and the Trade Policy Committee recently agreed on a limited exemption to the regulation. The U.S. Territory of Guam was placed by its own country under a quota of one

hundred sixty thousand dozen sweaters for a twelve month period. This action saved the one company already in operation, although the quota is less than the current capacity and is much less than the level of planned production. The new rule, however, left no room for any other textile manufacturers to invest in Guam and froze employment at the current levels. Once again, the production by Americans on Guam for sale to other Americans was subject to quota limitations.

As with Guam's short-lived watch industry, it appears that any time a Guam manufacturing operation becomes successful under Headnote 3(a), the Federal Government takes action to limit or prevent the continued success and growth of the operation. Subsequently, Guam's ability to attract jobs from Asians to Americans is greatly diminished in the eyes of potential investors. At a time when the U.S. is trying to bring jobs back to our country, Americans on Guam are slapped with quotas. Why? We ask. When certain industries left the Eastern seabord for the Western sun belt, Americans on the West Coast were not subjected to quotas. Toyotas and Datsuns are now being assembled by Americans in America. Do we fully count their productivity against Japan's actual imports?

With over 25,000 Guamanian Americans dependent on some form of Federal transfer payment and with an unemployment rate of 12%, jobs are of critical importance. And these are American jobs. Let Guamanian Americans earn a living from productivity, not from Federal handouts. Save the subsidies for the Treasury, or spend that same money on economically depressed industrial areas that need the money for re-tooling or re-investment.

The particular solution to the problem of the textile industry in Guam would be the enactment of H.R. 2225, introduced in the 99th Congress by Congressman Blaz of Guam, to amend General Headnote 3(a) by adding a new

subdivision providing that any article of wearing apparel, if assembled in an insular possession of the United States by joining together otherwise completed knitted-to-shape component parts of foreign origin shall be treated as if such article was a product of such insular possession. This would protect textile manufacturing in Guam under Headnote 3(a). Not only could the firm now operating, go ahead with plans to increase production and hire more employees, but other manufacturers could also go into business with reasonable assurance that they would not face arbitrary closure under a new federal change of heart. Guam's fragile economy would benefit greatly from such Federal action, thus alleviating the territory's dependence on Federal aid.

The larger solution would be to enact legislation which would exempt firms operating in Guam under Headnote 3(a) from future quota restrictions or prevent reinterpretation of the law which would shut down or badly hamstring any new Guam industry lawfully set up under Headnote 3(a).

It is highly conceivable that if the necessary amendments to Headnote 3(a) are made, Guam could become a manufacturing center in the Western Pacific, the underlying rationale behind Headnote 3(a). Guam's dependence on federal aid would thus be reduced, Americans would be employed, Asian imports lessened, and both the United States and Guam would benefit.

Representative LUNGREN. Thank you very much. Mr. Jones.

STATEMENT OF ROBERT H. JONES, EXECUTIVE VICE PRESIDENT, JONES & GUERRERO CO., ON BEHALF OF THE GUAM AUTOMOBILE DEALERS ASSOCIATION AND THE GUAM CHAMBER OF COMMERCE

Mr. JONES. Thank you very much, Mr. Vice Chairman. My name is Robert H. Jones. I am executive vice president of Jones & Guerrero Co., president of Triple J Enterprises, and today I am here representing the Guam Automobile Dealers Association and the chamber of commerce.

I would like to thank you and Delegate Blaz for this opportunity to be heard before this subcommittee.

Two years ago I was here for the chamber of commerce, and we were talking about abuses in the commissaries and exchanges. We were talking about excessive free freight to Guam, and it is strange that I am here today talking about the same kinds of problems but where we were trying to take it away before we have found out you couldn't do that, and I am here trying to give it back today, and I hope we are more successful this time than we were last time.

But anyway, I have a prepared statement which you have copies of, and I will try to summarize in the interest of time some of the important parts of the testimony.

President Reagan has termed this the era of the Pacific, and since 1978 the bulk of U.S. trade has shifted from the Atlantic to the Pacific. Japan and the United States account for 25 percent of the entire world trade now. Japan is our most significant Pacific trading partner.

Approximately 50,000 United States servicemen are stationed in Japan and Okinawa. Thousands more are assigned to Korea, Taiwan, and the Philippines. This is to preserve peace and the U.S.-Pacific trades.

Last year, General Motors recognized $422 million in net income from export tax subsidies. This year, Americans can be expected to buy 2,300,000 Japanese made vehicles. This is a big trade item.

A serviceman stationed in Europe can purchase a U.S. specifications vehicle, drive it for a year, and the military pays to ship it to the States on change of duty station. This is a service entitlement.

A serviceman stationed in Japan, including Okinawa, cannot drive a United States spec vehicle on the public roads there. Servicemen, about 1,200 annually, have been purchasing United States spec vehicles in the United States; namely, Guam, upon their stateside reassignment from Japan and Okinawa for shipment at military expense to reduce personal losses. This is not a big trade item, 1,200 automobiles per year.

Effective September 30, 1985, the Government will not pay the cost of transporting these Guam purchased vehicles for servicemen despite the request of the Department of Defense. This is a pity. I have a report here from the Department of Defense recommending that that be reinstated.

According to the Department of Defense, due to the unique "combined" effects of the United States and Japanese regulations and laws affecting their personal vehicles, U.S. servicemen can reason-

ably believe that they are being penalized for serving their country in Japan.

This is a crying shame. The Guam Chamber of Commerce, which reckons that the Guam Automobile Dealers Association stands to lose more than 8 percent of its market, is also opposed to the entitlement cutoff.

On February 1, 1984, the Department of Defense changed the joint travel regulations to close the so-called loophole and tighten the eligibility criteria for the free government shipments of foreign made vehicles. Let's see what happened.

Mainly, the politics of big U.S. auto business. Chrysler hired a big time Washington lawyer who wrote a biased and inaccurate report completely distorting the facts and the scope of the use of Guam as a means of cutting personal losses of GI's serving oversea duty.

It is redundant now to again refute the unsubstantiated charges of the report, but it suffices to say, gentlemen, that the Congress was led, with the support of the Michigan delegation, to believe that the Guam car dealers threatened the very existence of the U.S. automobile industry, and we were shipping 16/100ths of 1 percent of the national automobile sales to the United States. It is amazing that they would go that far for such a small percentage.

Guam is hardly the mouse that roared. It is America's frontier outpost in the far western Pacific. It has few resources. Its one best resource is its geopolitical position as America's Gibraltar in the hub of the Pacific. In fact, it is closer to Moscow and Peking than it is to Washington.

Guam has seven automobile distributors, representing all major United States and Japanese automakers, all of whom are members of the Guam Automobile Dealers Asscciation and all who are American citizens and American businessmen doing business on Guam.

Many servicemen assigned to the Far East are at times assigned to Guam temporarily on military bases. There are about 20,000 military people living on Guam or that pass through Guam or have friends stationed on Guam. There is kind of a kindred closeness to Guam that shrinks the distance between Guam and the Far East duty stations. As part of the United States it is the closest these Far East servicemen can get to home with a 3-hour visit to Guam.

The point or the main fact that I am trying to get across is that a lot of the military stationed in Japan and Okinawa take free hops over to Guam to do their shopping, or whatever they want to do there, buy automobiles, et cetera.

The Department of Defense has recommended in its report dated February 15, to reinstate Guam as an alternate port. Delegate Blaz tried unsuccessfully recently to do just this.

As an alternative, Guam's Automobile Dealers Association and the Chamber of Commerce have a recommendation. This recommendation is to provide the "in lieu of" reimbursement in the amount of $1,500 to those service personnel who would have been entitled to shipment privileges under the prior joint travel regulations.

This regulation would further be restricted to those personnel stationed in Japan, Okinawa, and Singapore, and such further Far

East countries as deemed appropriate by the service Secretaries who purchased a new vehicle within 3 months of their departure date from Japan and Okinawa or within 3 months after their arrival at their new duty station in the United States.

We are trying to eliminate the so-called unfairness, and our recommendation is to give the U.S. automobile industry the same opportunity if the serviceman, in fact, wants to buy a car from the United States.

The chamber feels that all of this most closely approximates equal compensation for the benefits lost from the travel curtailing. They would only be available to those persons who lost, or would have lost, the benefit; namely, those servicemembers who had to purchase a car upon reassignment from Japan.

The Department of Defense report took special note that it is these people who suffer "the most devastating expense" of service in Japan.

This proposal gives the military the greatest choice of opportunity and savings with maximum neutrality as regards any purchase or place or manufacturer.

Moreover, the chamber feels that this alternative addresses the unfounded allegations of the Michigan delegation that the joint travel regulations encourage the sale of foreign-made vehicles. This alternative provides a servicemember the same freedom of choice to buy a United States or foreign made vehicle available to his or her civilian counterparts in the United States.

And, importantly, it does so in a context of parity with the service member's station in Europe who are able to buy their own car there and ship it back at military expenses.

In the report, gentlemen, you will see all kinds of quotations from admirals and generals about the damage caused to the morale of the people, service people, serving in Japan or Okinawa. In the interest of time, I would not go into those. But I would like to point out that, in Guam, we don't have a deficit with Japan. We are exporting some $200 million in tourism exports per year.

And we are importing automobiles, but we don't—in my view, I don't think anybody here would have any statistics to show otherwise—I don't believe we have an export deficit with the country of Japan and, therefore, I don't believe we should be penalized as businessmen for that same reason that the United States has the reasons to penalize.

[The prepared statement of Mr. Jones follows:]

Prepared Statement of Robert H. Jones

Re: Military Transportation Benefits

Our servicemen and women have been unfairly victimized in a trivial pursuit of trade wars by U.S. auto makers. Similarly, America's tiny Gibraltar of the Pacific, the Territory of Guam, is singled out for undeserved retribution in this clash of Titans. It is time to protect our protectors, to strengthen America's Gateway to the Orient.

Background:

To maintain its defense forces throughout the world, the government has long provided our servicemen and women certain benefits. The purposes of the benefits are to encourage our citizens to serve in the armed forces and to mitigate or offset the hardship of foreign service. The benefits are cornerstones of our overseas military morale.

When a service member is assigned to an overseas location, the government will pack him up and move his entire household, including his personal vehicle. Since the government has ordered him overseas, it is hardly expecting too much of the government to pay for the move. Otherwise he is denied the common decencies of home and household available to civilians. And it reduces the emotional and financial hardship of foreign living.

And, when the government orders him to go home again, the government packs him up and moves him back. Even if he refurnished his home with English antiques, or Italian rococo, or rattan and rosewood from the Orient. Even if he is laden with German photographic equipment, Irish linens and Korean leather-goods.

If he's assigned to Europe he can bring his U.S. car with him and/or buy a nice new, made to U.S. specifications BMW or VW at close to factory prices. He can drive it around for a year and have it shipped home with his other goods, without paying any import duty or anything.

When a serviceman is assigned to Japan or Okinawa, however, he can neither bring his car with him nor buy one there to take back. Japanese road conditions, size requirements, pollution controls, prohibitively expensive (when available) unleaded fuel, and right hand drive regulations essentially eliminate U.S. spec or U.S. made vehicles from the local roads. So he is forced to sell his car when he goes to Japan at forced sale prices.

If, in order to get around or commute (many live off base), he buys a car in Japan, U.S. specifications and safety requirements prevent his taking it home with him. So, again, he sells it at forced sale prices on reassignment. The losses resulting from these forced sales are tangible and significant and a direct consequence of military service in the Far East.

Many military personnel stationed in the Far East have discovered that they can cut their losses by buying a U.S. spec car on Guam when rotating back to the States. Guam is the only place west of Hawaii where U.S. spec vehicles are available. Guam, of course, became a U.S. Territory in 1898. All the car dealers in Guam are U.S. citizens and pay the same taxes as their Stateside counterparts.

Under the military joint travel regulations (JTRs), a vehicle purchased in the United States (wherever manufactured) is not considered a foreign vehicle. Thus, all privately owned vehicles (POVs) bought in Guam are U.S. POVs, even if they are Japanese made.

Military personnel are entitled to ship one POV upon reassignment. In certain circumstances, occurring generally in the Far East, a POV can be shipped from a port other than the shipping port of the overseas duty station. This alternate port shipping benefit is only available if the serviceman pays any added expense over the designated port shipping expense. In Europe, where cars are easily driven and/or ferried to the designated port, alternate port shipping is not as necessary as in the Far East.

Due to the mock xenophobic rage and political clout of the Stateside auto makers, Congress has eliminated Guam as a source of auto purchases for GIs in Japan and Okinawa. The DOD has also bent under the pressure. They have closed off Guam as an alternative port.

The result is that servicemen and women in Japan and Okinawa can no longer expect the government to pack them up and move them home. They have to pay the entire cost of shipping a Guam purchased vehicle from their own pocket.

Congress ordered the Department of Defense to study this situation. In its analysis and report, the Department of Defense concluded "our people are caught in the middle and end up experiencing significant financial and personal sacrifices to buy and own a car - a privilege which their civilian peers in (the Continental United States) regard as a right... In essence, these people can reasonably believe they are being penalized for serving their country in Japan."

How Important is the Transportation Benefit

Very important. The DOD, in its report to Congress, noted that servicemen assigned to Japan, Okinawa and Singapore face "unique hardships" relative to automobile ownership. The report mentions that the servicemen who sell a car prior to moving to Japan usually lose "a minimum of $1000 to $2000 in the process." This is not as bad, though, as the loss faced upon rotating back to the States. "The most devastating expense for our Service members, however, occurs upon their permanent change of station from Japan."

The Japanese car market in Guam is attractive to Far East based military personnel because the market is close and outside quota systems

and prices are correspondingly as competitive as open market forces can make them. Furthermore, Guam businessmen can fly up to Japan in the morning, do business and fly back that night. Because of this proximity, some of them maintain sales agents in Japan soley to service the military and foreign office personnel stationed there. (Since Japanese laws prohibit the sale in Japan of U.S. spec vehicles, the only way the sale can be made is from Guam.) Military personnel are important customers to Guam business people, treated with respect and catered to with the best of service.

How do the GIs feel about the benefit curtailment? They feel cheated. "The alternate port shipment from Guam is one of the most beneficial packages offered to the Air Force military community." (SMS William Mullens, USAF Ret., NCO Association) "I would be opposed to such a ban (on Guam alternate port sales benefits) since it would be a significant reduction of benefits to United States service members overseas." (Admiral James D. Watkins, Chief of Naval Operations.) "Because of the large number of Marines deployed to Japan (and) severe vehicle shipping restrictions to and from Japan which already penalize Marines assigned there... the Marine Corps feels (banning the shipments)... could be a disincentive to service in that area..." (General P.X. Kelley, Commandant of the Marine Corps) "The Army views the (ban on shipments) as contributing to the perceived erosion of benefits and diminishing to the attractiveness of overseas service." (General John A. Wickham, Jr., Chief of Staff, U.S. Army)

The importance of the transportation practice is also vitally important to Guam. Not counting sales to Guam-based military personnel, DOD found military sales to Japan and Okinawa constitute 8% of the local new car market. GADA believes the market share is much greater.

The DOD report recognizes the struggling nature of the Guam economy and the substantial impact of military operations on the economy. "Our Office of Economic Adjustment has been working with Guam since 1976 to assist their economic adjustment to a number of Defense actions. We have considerable investment in facilities in Guam and consider it in our best interests to assist in maintaining a viable economy in Guam. The elimination of Guam as an alternate port would be counterproductive in that regard."

It is also significantly counterproductive to Guam's economic growth and wellbeing. Guam's tax base is only as big as its economy. To the extent Guam cannot be self-supporting, it must look to the federal government for assistance, which it loathes doing.In addition to lost taxes from income generated by the military sales, there is a ripple effect in the support industries, such as shipping, rustproofing and detail work. If Guam had a robust and wide based economy, it could weather the loss. But it is essentially a developing country, which the U.S. has long recognized. It can ill afford any significant contraction in such a major industry as military sales.

What Happened?

What happened to bring about this sad state of affairs for our Japan-based service personnel? The politics of big U.S. auto business. Chrysler hired a big time Washington lawyer who wrote a biased and inaccurate "report" completely distorting the fact and scope of the use of Guam as a means of cutting personal losses of GIs serving overseas duty. It is redundant now to again refute the unsubstantiated charges of the report. Suffice it to say that after the report, and with the concerted cacophony of the Michigan delegation, Congress was led to believe that Guam's car dealers threatened the very existence of the U.S. automobile industry.

Guam is hardly the mouse that roared. It is America's frontline outpost in the Far Western Pacific. It has few resources. Its one best resource is its geopolitical position as America's Gibraltar in the Hub of the Pacific. (In fact, it is closer to Moscow and Peking than to Washington.) Guam has seven auto distributorships representing all major U.S. and Japanese auto makers, all of whom are members of the Guam Automobile Dealers Association (GADA).

Many servicemen assigned to the Far East are at times assigned to Guam's military bases (about 20,000 military live on Guam) or pass through Guam or have friends stationed on Guam. There is a kindred closeness to Guam that shrinks the distance between Guam and the Far East duty stations. As part of the U.S., it is the closest these servicemen can get to "home".

Guam's nonmilitary population is about 100,000. The military represents a significant segment of the Guam market for automobiles and many other products and services.

In response to the Congressional Conference Committee Report 98-1080, Section 652, the Department of Defense made an analysis and report of the Far East military vehicle transportation policy. It found that in the last three fiscal years only about twelve hundred cars were shipped from Guam annually under then existing transportation regulations (JTRs).

During the same time frame, the annual U.S. new car market was in excess of seven and one-half million units. In its 1984 tax year, General Motors recognized net income of Four Hundred and Twenty-Two Million Dollars soley from federal export tax incentives (read: taxpayer subsidies). In 1985, Americans will reflect acceptance of and demand for Japanese made cars by buying about Two Million units from U.S. automobile dealers on the Mainland. The U.S. automobile market, on a national and international scale, is obviously of gargantuan proportions.

By stark contrast, the Guam overseas sales program and military transportation policy is absolutely peanuts. The 1200 units constitute only sixteen one-hundredths of one percent of the U.S. national new car market.

President Reagan has heralded this time as the Era of the Pacific. Since 1978 more U.S. trade is conducted across the Pacific Ocean than across the Atlantic Ocean. The U.S. and Japan together account for 25% of the entire world trade.

In order to secure the freedom and safety of this vital trade, the Navy is beefing up to a 600 ship force. There are currently approximately 50,000 servicemen and women stationed in Japan and Okinawa. Thousands more are stationed in Korea, Taiwan, the Philippines and Singapore, as well as other Pacific Rim countries. Twenty thousand are assigned to Guam.

That the U.S. auto industry would stoop so low as to deny transportation benefits designed to offset the loss and hardship imposed on servicemen maintaining the peace in the Far East and protecting our trade routes is an indictment of the industry's myopia and insensitivity. That they would crush a 1,200 unit a year market on the tiny island of Guam is testimony to their oligopolic ruthlessness. The Government is allowing the U.S. automakers to severely affect the morale of our military service personnel over a few measly crumbs from the new car market table.

What Can be Done?

The Department of Defense has recommended that the former transportation benefits, including Guam as an alternate port for Japan and Okinawa and Singapore, be restored, without restriction. The Guam Chamber of Commerce concurs that this is the most equitable solution, particularly if Guam is also included as an alternate port for Korea, Taiwan and the Philippines.

The DOD felt there were no viable alternatives to reinstating the shipping regulations. The Guam Chamber of Commerce feels that there is one possible alternative (though not preferable to unrestricted reinstatement).

The Chamber recommends that the service provide an "in lieu" reimbursement in the amount of $1,500 to those service personnel who would have been entitled to shipping privileges under the prior JTRs. This reimbursement would further be restricted to those personnel stationed in Japan, Okinawa and Singapore (and such further Far East countries as deemed appropriate by the service Secretaries) who purchase a new vehicle within 3 months before or after their assigned moving date to a new permanent duty station in the U.S.

The Chamber feels this alternative most closely approximates equal compensation for the benefits lost from the JTR curtailment. It would only be available to those persons who lost, or would have lost, the benefit, namely those service members who had to purchase a car upon reassignment from Japan. The DOD report took special note that it is these people who suffer "the most devastating expense" of service in Japan.

This proposal gives the military the greatest choices of opportunity and savings with maximum neutrality as regards any preference of place of manufacture. Moreover, the Chamber feels that this alternative addresses the (unfounded) allegations of the Michigan delegation: that the JTRs encourage the sale of foreign made vehicles. (Actually, U.S. made cars can be purchased in Guam also, and often are purchased there by service personnel.) This alternative provides a service member the same freedom of choice (i.e., whether to buy a U.S. or foreign vehicle) available to his or her civilian counterpart. And, importantly, it does so in a context of parity with those service members stationed in Europe who are able to own and ship foreign made vehicles.

The Chamber fails to understand the DOD conclusion that a one-time in lieu allowance, restricted as indicated above, might somehow be deemed to be inequitable. DOD evidently felt the payment had to be made to everyone regardless whether a replacement vehicle was purchased. There was no indication of any inequity when the service failed to give compensating allowances to those not utilizing the shipping privilege available to them. By the same token, the in lieu allowance need only be made available to those members evidencing a need for it by purchasing a new vehicle concommitently with a change in duty station.

Since the curtailment of the prior benefit was only aimed at and affected members stationed in the Far East, implementation of a policy to restore the benefit need only be aimed at them. This hardly seems unfair or inequitable. On the contrary, it hardly seems fair or equitable to continue to deprive Guam of its natural market and to continue the discriminatory and harsh oppression of our service personnel assigned to the Far East.

Representative LUNGREN. Thank you very much, Mr. Jones. I did detect a slight accent there. You must be from the southern part of Guam.

Mr. JONES. North Raleigh. [Laughter.]

Representative LUNGREN. Mr. Perez, can you tell me what has been the progress, if any, thus far in implementing the waiver of nonimmigrant visas which we adopted in the Congress last fall?

Mr. PEREZ. The progress to date, Congressman Lungren, is that the result of Interior's meeting on Guam in early August this year, a group was put together comprising both local government, Federal representatives and INS, as well as the Interior and the local business community, and discussed specific problems that might arise with regard to INS accepting entry and departure control systems. And working together, we were able to put together what generally was felt to be a system that would take care of concerns raised by INS with respect to controls.

So, at this point, we put together a package that is now under review by affected Federal agencies—in Interior, State and INS as well. And so we're just awaiting for them to meet and to see if there are additional concerns that need to be resolved before we go forth with implementation.

Representative LUNGREN. Yes; when we passed the legislation, one of the requirements we placed in there was participation by those various departments, and also the formation or development of an adequate arrival and departure system, and some manifestation of proof that the waiver would not affect U.S. security.

It kind of makes me smile a little bit when I think that our concern about U.S. security does not apparently go to the question of having residents and people from the Republic of China working at our military installations. And that seems to go forward more quickly than working out the waiver provision.

Mr. Segal, can you tell me what percentage of sweaters that are made in the United States are made by your operation in Guam?

Mr. SEGAL. I cannot tell you that number. It certainly is insignificant as a number. It's less than 1 percent, as a number. I know that imports, which is over 16 million dozen and our 160,000 dozen was domestic lobby's concern on. So it's 16 million dozen that's brought in from Hong Kong, Taiwan, Korea, wherever it is. We're 160,000 dozen. And that's what they're battling with.

Representative LUNGREN. Well, I guess, if we're to be worried about another country, and that's the language that's used in legislation dealing with Guam, their imports to the mainland, we couldn't have picked a much smaller country to be worried about.

Mr. SEGAL. We have the smallest sweater quota. I believe we're, in total, as I take sweaters in quota, in total, as an example, maybe Taiwan will have total sweater quota of 5 million dozen. Ours is only 160,000 dozen of acryllic or wool sweater quota. So its relatively—it is insignificant.

In fact, one factory in the States will make 160,000 dozen. And also, even further, we make an old-fashioned sweater. There's no——

Representative LUNGREN. what I'm trying to drive at is I can see concerns. I mean, I don't happen to be one of those who votes for protectionist legislation in virtually every instance. I suppose

maybe I made a mistake once or twice. But, I mean, I can understand the concerns various industries have had and the Members of Congress want to protect those industries. But, when you're talking about the size of the area we're talking about, the potential workforce, 110,000 people in total living on Guam, a good percentage of those working for the military right now, I don't know. It seems to be far less significant than the concerns some people have raised about China with its potential 2 billion people work force somewhere down the line.

Mr. SEGAL. Congressman, it's not even quota. Duty is the issue. They're already given us the quota, but now they say we have to pay duty. And that knocks us out of business; we can't pay duty and compete with Hong Kong, Taiwan, and Korea. So we're even being further penalized.

Representative LUNGREN. You mentioned that you were paying labor rates as high if not higher than——

Mr. SEGAL. Higher.

Representative LUNGREN [continuing]. Domestic American industry?

Mr. SEGAL. Higher. First of all, all our cadre we brought out there. We have an American, taking him from South Carolina and living on Guam, an exceptionally higher premium.

Representative LUNGREN. At least, they'll know how to talk with Mr. Jones from North Carolina. They'll understand one another when they go by car. [Laughter.]

Mr. SEGAL. And, of course, the operators. The operators are—we are competing with the public sector also, which we commented, who make nice wages. Our operators are making in excess of $5 an hour. Some operators, $7, $7.5 an hour, which is the more skilled. And, as I said——

Representative LUNGREN. What would be the comparable wage in Taiwan, Korea?

Mr. SEGAL. Taiwan? Taiwan is a dollar an hour, and they've been skilled. Don't forget, these workers also we trained. These were unskilled people before we started the contract, because we could not bring them in under immigration laws to assemble there. They have all the disadvantage that go with it.

Mr. SANCHEZ. Congressman, perhaps, if I may add, too, perhaps this is the committee to bring this up, since you have had a history of being forward-thinking, regardless of the production of Guamanian Americans, the concept that you would apply quotas or tariffs to Americans and what they sell to each other would have our forefathers trying to move to a new country.

Representative LUNGREN. I understand that, and I realize that. And, unfortunately, that was one of the arguments that Congressman Blaz made on the floor, and some of us made in supporting him with his amendment, and it fell on deaf ears.

And so I think you've got to be able to argue both. I mean, I happen to think you're absolutely right. You're talking about American citizens, not foreigners. We're trying to do something to make sure that they're not dependent on the government largess. And some people say, fine, fine, fine, you know, but we're talking about Toyota cars that are going to be sold.

And I don't have all the credibility in the world with some of my colleagues from Michigan since Toyota Motor Co., United States has its corporate headquarters in my district, and the Port of Los Angeles and Long Beach, both of which are in my district, probably take in more Japanese automobiles than any port in the United States.

But, I mean, what I'm saying is you can talk about the argument of people. People. People being American citizens. I think that's a very important argument, but you've got a protectionist mood running through this Congress right now.

And so I think, in addition to that, you've got to make some other arguments, which are:

You want to say a threat to the textile industry, Guam is not where you've got to worry about it. At least, it seems to me, as much as that may pain you to make that argument, because the other one is more heartfelt, that you might be required to make it as well.

Mr. SANCHEZ. Well, the nice thing is that I work for the government economic authority that worked with Mr. Segal 4 years ago, and here was an American businessman leaving Asia to come to an American territory to create jobs—exactly what we're trying to encourage.

Representative LUNGREN. Yeah, but we'll teach you. [Laughter.]

Mr. SEGAL. I think that's really the main point. I can't see how anybody would make an investment, watch industry started, it's gone. We'll be gone. How can anybody make an investment in Guam based on the history, which means foreign employment, lower morale. And no one cares. Why should they? There's nothing there.

And it's not just textiles. I mean, we're scrambling just to protect one. We are the success story. After a cost of $2 million, we were the success story that's there. And no one cares.

Sure, it's like the story they tell over—as long as they shoot them in the pants, as long as they don't hit my coat. It's a perfect example. [Laughter.]

And as we said, we're insignificant compared to the total country. Our product is even made here, because we're talking about full-fashioned sweaters. We're all Americans and everything else is right.

And we were told to do this. We used American law, had no 3A, U.S. Customs. There isn't one thing that we did improperly. We dotted every "i" and crossed every "t" and made our investment.

If it's only in the interest of American fair play, this shouldn't happen, the kind of problem.

Representative LUNGREN. Aren't you also telling me in your testimony that it is suggested that you be treated differently than the way we're going to treat the Caribbean Basin?

Mr. SEGAL. Oh, sure. In the textile law, they're exempting the Caribbean Basin. They're exempting Canada. They're exempting all of Europe. They're exempted. They're not in this.

Guam. China. Taiwan. Korea. Indonesia. And a big country of Guam. They're in it. The others are not.

Delegate BLAZ. I testified at that particular hearing. Mr. Vice Chairman, and the reason given why they're exempting Canada

and EEC countries was that they were close friends of the United States. [Laughter.]

Representative LUNGREN. There's an answer to that. Declare war on the United States. Lose. And we'll build you up. [Laughter.]

Delegate BLAZ. So I said that if Canada and EEC countries were close friends of the United States and that was the basis, then I would like to know what the relationship would be for Guam to the motherland, which is the United States.

And I thought I made a point, quite frankly. The chairman himself looked at me and said, "I can't believe they're treating you that way."

And then he referred to that bill on the floor that was treated, and he looked at me and, using his words, he said, "I think you got screwed on the floor on this issue," meaning that I should have won that one.

So there are a number of Members of Congress who apparently have a feeling that Guam is being betrayed on this. And, yet, we can't seem to get the right numbers, or either we can't seem to change the perception.

There's a perception that when you talk about Guam, you're almost talking about Taiwan, the same, you know, throwing them altogether.

And in the case of the Northern Marianas, when you put the two communities and you compare the benefit, and they're not even citizens of the United States right now, and we are citizens.

Representative LUNGREN. It doesn't sound like we're encouraging them to become citizens.

Delegate BLAZ. Yes, it just kind of makes you want to throw back your free trade decree and say, let's start all over again.

Anyway, I mean——

Mr. SEGAL. It's not even free trade, it's fairness. It's right. By my own discussing free trade, we are reduced by our Government, the U.S. Government. I'm not talking to somebody who lives in New York, to do these things. And somebody just changed the rules after the fact.

Delegate BLAZ. If the bill as currently written is not modified, say, the bill that I submitted is not changed, what would be the prospect of survival for your company on Guam?

Mr. SEGAL. That we could survive. We could not grow. We could not add one additional worker. In fact, in theory, as we get efficient, more efficient, we'll even reduce somewhat a work force. Somewhat. But, we could stay in business. We could now compete with Hong Kong, Taiwan, and Korea.

Delegate BLAZ. Did I—either you misunderstood the question or I misunderstood the answer. If the bill as currently written, that is, the Jenkins bill——

Mr. SEGAL. I'm sorry. The Jenkins bill?

Delegate BLAZ. Yes.

Mr. SEGAL. The Jenkins bill.

Delegate BLAZ. Were to be——

Mr. SEGAL. The Jenkins bill will, at the best, reduce our business 25 to 30 percent. But we don't have a problem with the Jenkins bill because if the bill that you've introduced is not passed, we won't be around for the Jenkins bill.

Delegate BLAZ. OK, then, well, suppose, if my bill does not pass?

Mr. SEGAL. If your bill does not pass?

Delegate BLAZ. Yes.

Mr. SEGAL. If it is not passed, we would have to pay duty and we could not compete.

Delegate BLAZ. And you'd have to close down?

Mr. SEGAL. We's have to close down, that's correct.

Delegate BLAZ. And what would be the loss for you?

Mr. SEGAL. Thirty-five years of work and a career, that I depend on my Government.

Representative LUNGREN. How many jobs are we talking about?

Mr. SEGAL. Guam, 300; 75 in New York; 50 in South Carolina; $700,000 worth of freight to U.S. lines. A lot of peripheral people also that we also give business to. Right down the line.

Mr. JONES. And the loss of a rent of a warehouse to us. You know, Congressman, I've been on Guam for 25 years. And it's amazing. It seems like one would think that there is a little committee sitting back here saying, hey, let's see what we can do to these guys to make them dependent upon the Federal grants and handouts. You know, let's kill their headnote 3A and let's sort of kill their watch industry and textile industry, and let's close our oil refinery because the guy that owns it owes us some taxes, or whatever the situation is, back to the United States Government, not to the Guam government.

And let's, you know, give them their land back. Let's attach a rider to it so that they can't use it, and pay 70 percent of the revenue. And let's give them prevailing wages out there so that it would draw the cream off all of the housing industry and send it abroad to some foreign area. And then let's, you know, cancel the privileges of all the military in Japan that buy cars from us so we put the businessmen out of business there.

And then wind up by letting the Chinese Communists do their construction on military, you know? Where does it stop at?

Representative LUNGREN. I wish I had an answer for you where does it stop. I just did some quick calculations. Loss of 300 jobs in Guam, I think, is somewhat equivalent to loss of somewhere like 75,000 jobs in California, based on population. I'll tell you, from my State, if we were going to lose 75,000 jobs in one feld swoop, I guarantee you Congress, because we have 45 Members of Congress. That makes a——

Mr. SANCHEZ. And they can vote.

Representative LUNGREN. And they can vote. That's the unfortunate thing.

I want to thank you for all of your testimony here. I just want to say in passing that Delegate Blaz has been talking with a number of us about the problems that you have in a very, very heartfelt way. And trying to educate a lot of us on that. As good a job as he has done is not as good as having all of you folks here to give us some idea about the issues that we've got to address.

So I want to thank you for it and thank Delegate Blaz for encouraging us and encouraging Senator Symms and the others who attended the morning session for having these hearings.

And I hope this information base will be of some assist in solving some of these problems before the Congress.

Delegate BLAZ. Thank you very much, Mr. Vice Chairman. I want to thank you heartily for your interest. As you can see, there's a lot of anguish over this. And this is the first opportunity we've had to put all our concerns in one basket, so that we can present it to the full committee, which is the appropriate committee.

I think now that we have it altogether rather than just in isolation, the impact can be better felt because it is staggering, as you point out. I wish I had made that calculation because when you compare the per capita involvement, Guam is really getting an awful shellacking on this thing.

But, perhaps now that we have it altogether we can show it graphically and we might be more persuasive. I can assure you it is my intention to do what we can, and I certainly could use your help.

Representative LUNGREN. Thank you very much. The subcommittee is adjourned.

[Whereupon, at 5 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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